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A JOINT PUBLICATION OF THE SOUTHERN ECONOMIC ASSOCIATION AND THE UNIVERSITY OF NORTH CAROLINA

Published Quarterly at Chapel Hill, N. C.

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The SOUTHERN ECONOMIC JOURNAL

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THE HAMILTON NATIONAL ASSOCIATES, INC.—A CASE STUDY IN GROUP BANKING[1]

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PART I

ORIGIN, DEVELOPMENT, AND PRESENT STATUS

Branch banking is a highly controversial subject among Tennessee bankers. The reason is that large and powerful groups among them are devoted in both theory and practice to each of the three principal types of bank organization: unit, group, and branch.[2] Since the protagonists of each form tirelessly seek legislative favor, there is never a dull moment in Tennessee banking circles.

Prior to 1925 the state of Tennessee had no law either permitting or prohibiting branch banking. In the absence of any statute on the subject, a few banks had established a limited number of branches even before 1914.[3] A 1913 law provided that branch banks or additional offices must pay fees similar to those charged unit banks for the support of the newly-created state banking department. This enactment merely recognized a de facto situation and made no attempt to legislate upon the subject.[4] The number of branch banks in Tennessee increased slowly during the next five years, from only 9 in 1914 to 18 in 1919. From 1920 to 1925 the spread was more rapid, resulting in a total of 58 by the latter year.

The issue of branch banking was brought to a head in 1925 primarily through growing opposition to the activities of the Commerce Union Bank of Nashville. Beginning early in 1923, this enterprising bank had been establishing numerous branches in keeping with similar tendencies in other states. Concern was aroused among the unit bankers who foresaw a threat to their positions as inde-

[1] Based on a survey conducted for the Bureau of Business Research, University of Tennessee. The material has been condensed into two articles: Part I, Origin, Development, and Present Status; and Part II, An Analysis of Operating Results. Part I is published herewith, and Part II will appear in a subsequent number of *The Southern Economic Journal*.

[2] "Unit" banking refers to a banking system wherein each banking office is an independent organization; "group" banking means that two or more banks are controlled by a holding company through ownership of a majority of shares in each; if such control is held by one or more individuals rather than by a holding company, the term "chain" banking is applied; when two or more banking offices are operated under one corporate charter, the result is "branch" banking.

[3] See article by C. A. Campbell, "Branch Banking in Tennessee Since the Civil War," East Tennessee Historical Society's *Publications*, No. 12 (Knoxville, 1940), 84–99, for a chronological survey of the extent of branch banking throughout Tennessee.

[4] Tennessee *Public Acts*, 1913, XX, 192–219.

pendent officials of their locally-owned institutions. They argued that the integration of banking takes initiative away from small communities, restricts credit in such areas, and leads to the concentration of economic resources in a few large centers.

The result was Section 5950 of the Tennessee Code, passed in 1925, which limits branches to the county of the head office. Since the bill was not retroactive in its application, the Commerce Union was permitted to keep its nine branches outside Davidson County and its two offices in Nashville. This favored position among Tennessee banks has been retained to the present time and is shared by but one other institution, the Tipton County Farmers Union Bank of Covington. The latter, however, is a relatively small system with only six branches and total deposits of less than two million dollars.

The 1925 law which forbids the establishment of branch banks outside the county of the head office is both the first and the last Tennessee legislation on the subject of branch banking. But in the years since there have been many bitter struggles over attempts to enact new laws. The difficulties of the depression brought demands for all kinds of bank reform throughout the United States, and several states passed enabling acts for branch banking. In Tennessee such a bill was introduced in the 1933 legislature and produced great dissension among the bankers of the state. The bill failed of passage, but the wounds of the battle were deep and have been kept open by agitation for modified legislation in 1935, 1937, and 1939.

Federal enactments concerning branch banking among national banks are three: first, the National Bank Act of 1864 which contained no provisions specifically for or against branch banks but which was later interpreted as denying such privileges because of its wording that the "organization certificate . . . shall specifically state . . . the place where its operations of discount and deposit are to be carried on, designating the State, Territory, or District, and the particular county and city, town, or village;"[5] second, the McFadden Act of February 25, 1927, which gave national banks restricted rights to establish branches within the limits of the city where the head office is located;[6] and, third, the Banking Act of 1933, extending to national banks the right to establish state-wide branch systems wherever the state law grants similar privileges to state banks.[7] Hence, Tennessee law was more generous than the federal up to 1933, permitting county-wide as against city-wide systems; but thereafter our national law has been potentially the broader, sanctioning state-wide rather than merely county-wide branch systems.

[5] 13 Stat. 101. Among the interpretations were those of the Attorney-General, George W. Wickersham, in 1911, and of the Supreme Court in the 1924 case of *First National Bank of St. Louis* v. *State of Missouri* (263 U.S. 640). Rulings by the Attorney-General in 1911 and 1923, however, permitted city-wide branch offices for receiving deposits and cashing checks. See also, John M. Chapman, *Concentration of Banking*, pp. 177–178; and Virgil Willitt, *Chain, Group and Branch Banking*, pp. 100, 130–132.

[6] Board of Governors of the Federal Reserve System, *The Federal Reserve Act as Amended to October 1, 1935*, p. 20.

[7] *Ibid.*, p. 184.

The state of Tennessee has never legislated on the subject of group banking, and the first attempts of the federal government to control the activities of bank holding companies came with the Banking Acts of 1933 and 1935. Under the terms of this legislation a holding company may not vote stock owned by it in any national bank or in any state bank belonging to the Federal Reserve System without first obtaining a voting permit from the Board of Governors of the Federal Reserve System.[8] Thus all but nonmember banks are covered by this legislation.

I

The Hamilton National Associates, Inc., with headquarters at Chattanooga, is a holding company which has advertised the affiliation of 17 banks in northern Georgia and eastern Tennessee. As seen in Table I the system consists of 14 relatively small banks with total assets ranging from $400,000 to $2,500,000, one larger bank of about $7,000,000, and two sizeable institutions with resources of approximately $40,000,000 and $70,000,000 in Knoxville and Chattanooga, respectively. The Chattanooga bank has four branches which, with the 17 incorporated units, makes a total of 21 banking offices. The consolidated report for December 31, 1941, indicates total resources of nearly $140,000,000 for the group as a whole.

The guiding genius of the Hamilton group is Thomas R. Preston, president of the Hamilton National Associates and of the Hamilton National Bank of Chattanooga, the latter being the largest bank of the system and the hub around which the group was built. The whole organization so definitely reflects the personality of this man that a few words about him are not only of interest but are essential to an understanding of the banking structure he has reared.[9]

Mr. Preston was 73 years old on November 29, 1941, having been born at Woodbury, Tennessee, during the reconstruction period immediately following the Civil War. Those were hard days, and as a boy he received rugged training in thrift, work, self-discipline, and self-education. After being graduated from Woodbury Academy, Preston wanted to study law, but soon was forced to give it up for financial reasons. He took a position with the Bank of Woodbury. The directors said they would take him on trial and fix his salary later. After several months they decided he was not worth anything and declined to pay him any salary. About a year was spent with the Traders National Bank of Tullahoma, and then young Preston obtained a position as messenger for the South Chattanooga Savings Bank.

The office force consisted of three men, the cashier, one assistant, and the messenger. Within a few months the assistant resigned and Preston moved up.

[8] *Ibid.*, pp. 179–181.

[9] The personal history of Thomas R. Preston was pieced together from several sources: Mr. Preston, himself; his scrap books; *The Story of the Hamilton National Bank* (Hamilton National Bank, Chattanooga, 1935); *Progress through Fifty Changing Years* (Chattanooga, 1939); *Knoxville Journal*, May 10, 1931; "What Would the Boss Do if You Quit?", *American Magazine*, Dec. 1926, p. 56; and "From Plowboy to Banker", *Success Magazine*, Aug., 1921, p. 35.

TABLE I

THE HAMILTON NATIONAL ASSOCIATES, INC., GROUP, DECEMBER 31, 1941

NAME OF BANK	LOCATION	CAPITAL	DEPOSITS	TOTAL RESOURCES
1. Hamilton National Bank	Chattanooga, Tennessee	$2,000,000*	$68,813,466	$73,178,000
East Chattanooga Branch	" "	—	—	—
Highland Park Branch	" "	—	—	—
Main Street Branch	" "	—	—	—
Rossville Branch	" "	—	—	—
2. Hamilton National Bank	Knoxville, Tennessee	500,000*	36,674,905	39,684,835
3. Hamilton National Bank	Johnson City, Tennessee	100,000*	6,518,834	7,132,696
4. Hamilton National Bank	Morristown, Tennessee	55,000*	2,206,497	2,385,286
5. First National Bank	Harriman, Tennessee	100,000	1,990,759	2,158,801
6. First National Bank	Lenoir City, Tennessee	100,000	1,248,115	1,421,510
7. First National Bank	Loudon, Tennessee	50,000	1,195,540	1,280,843
8. First National Bank	Oneida, Tennessee	25,000	552,046	607,507
9. First National Bank	Pikeville, Tennessee	30,000	365,088	410,912
10. First National Bank	South Pittsburg, Tennessee	100,000	1,217,104	1,392,728
11. Bank of Spring City	Spring City, Tennessee	25,000	743,011	802,511
12. Calhoun National Bank	Calhoun, Georgia	75,000*	1,434,178	1,597,042
13. First National Bank	Cartersville, Georgia	200,000	2,144,807	2,417,998
14. Commercial Bank	Cedartown, Georgia	140,000	1,096,250	1,358,114
15. Bank of Chickamauga	Chickamauga, Georgia	25,000	439,905	488,191
16. Hardwick Bank & Trust Co.	Dalton, Georgia	100,000	1,769,069	1,970,638
17. Bank of Lafayette	Lafayette, Georgia	50,000	1,183,598	1,295,161
Totals		3,675,000	129,593,172	139,582,773

* Common stock only; preferred stock also outstanding as follows: Chattanooga, $250,000; Knoxville, $350,000; Johnson City, $466,650; Morristown, $87,000; Calhoun, Georgia, $25,000.

A year and a half later the cashier died. The directors elected Preston to the position. The *Chattanooga Times* of January 28, 1891, pointed out that the new cashier of the South Chattanooga Savings Bank was only 22 years old and was, undoubtedly, the youngest bank cashier in Tennessee. The depositors were dubious concerning his ability, and a slow run started which soon cut the deposits in half. Preston saved the bank and his own career by putting on a successful personal campaign after banking hours, visiting as many depositors as possible and selling himself to them.

Two years later the panic of 1893 broke over Preston's head. One fateful morning he opened the doors to the waiting crowd and announced that he was ready to pay anyone who wanted his money and that the bank wanted no depositor on its books who lacked faith in the management. One large depositor decided to call this bluff and asked for his money. Preston slowly and methodically counted out $16,000 in gold and insisted that the man carry the sizeable pile away! Realizing his foolishness, and seeing that the bank had other piles of money left, the customer begged Preston to keep it. That turned the tide. Whereas 10 out of 17 Chattanooga banks failed, the little South Chattanooga Savings Bank came through the crisis with a new and greatly enhanced reputation.[10]

These grave incidents early in the career of the young banker, as well as the hardships of his youth, hold the answer to much of the policy of the Hamilton banks today. These banks have been both denounced and praised as being ultra-conservative, but no one questions their dependability. In the panic of 1907, the bank of which Preston was president gained rather than lost deposits. During the troublous times of 1930 through 1933 no bank of the Hamilton group was allowed to fail.

Mr. Preston impresses one as being a man of time-tested principles and possessed of the unusual courage requisite to hold fast to such standards through thick and thin. He has been honored at various times by election to such outstanding positions of leadership as the presidency of the American Bankers Association and of the Tennessee Bankers Association, a directorship in the Chamber of Commerce of the United States, and directorship on the boards of numerous large industrial and financial institutions.[11]

The South Chattanooga Savings Bank had but $10,000 capital and about $30,000 in deposits when Preston became cashier in 1891.[12] Under his guidance

[10] Letter from D. S. Zachry, Mar. 28, 1942. See also the *American Magazine* for Dec., 1926, p. 200.

[11] Following is a list of corporations in which Thomas R. Preston was a director as of August 19, 1941: Penn-Dixie Cement Corporation, Standard-Coosa-Thatcher Company, Nashville, Chattanooga & St. Louis Railway, Ross Meehan Foundries, O. B. Andrews Company, Crown Cotton Mills of Dalton, Georgia, Volunteer State Life Insurance Company, Provident Life and Accident Insurance Company, Hamilton National Banks of Chattanooga and Knoxville, and the Hamilton National Associates, Inc.

[12] The history of Mr. Preston's banks was traced through material in the publications referred to in Footnote No. 9 and in the scrapbooks of C. M. Preston, president of the Hamilton National Bank, Knoxville, and of D. H. Griswold, president of the American Trust and Banking Company, Chattanooga.

the bank grew rapidly. By 1903 the capital had been increased to $100,000 and the name changed to Hamilton Trust and Savings Bank, after the name of the county in which Chattanooga is located and after the first Secretary of the Treasury, Alexander Hamilton, whose picture is used on all statements and letterheads of the various Hamilton banks. At this time Charles M. Preston, Thomas R.'s younger brother, was made cashier, and the two have pulled together ever since. Charles M. Preston is now president of the second largest bank of their group, the Hamilton National Bank of Knoxville.

In 1905 Thomas R. Preston and his stockholders opened an "uptown" bank, the Hamilton National, on one of the busiest corners in Chattanooga, with an initial capital of $250,000. Under his presidency the two banks prospered and their reputation grew. Beginning in 1913 a program of expansion was initiated which led to the absorption of the Avenue Bank and Trust Company in 1913 and the Bank of East Chattanooga in 1922 by the Hamilton Trust. Both were continued as branch offices. The Hamilton National took over the Citizens National in 1916 and the Bank of Commerce in 1918.

A major change in organization came on October 24, 1928, when the Hamilton Trust with its two branches was merged with the Hamilton National. The Hamilton Trust now became the Hamilton National Bank's Main Street Office and its own two branches were continued as the Rossville and East Chattanooga Offices of the consolidated organization. A small bank, the Union Bank and Trust Company, was bought out in January, 1929, and the final step in this form of expansion was taken in June of 1930 with the absorption of the Highland Trust and Savings Bank and its continuance as the Highland Park Branch.

By means of these mergers as well as by strong internal growth, the Hamilton National Bank on January 1, 1942, had grown into an institution possessing $2,000,000 common stock, $1,500,000 surplus, $540,000 undivided profits, and $68,814,000 deposits. During the years of its existence dividends totaling over $5,000,000, including a 100 per cent dividend by the Hamilton Trust and Savings Bank, were paid to stockholders and over $8,000,000 interest on savings and other deposits was distributed. Each of the original shareholders of the Hamilton National Bank had his investment increased 100 per cent every five years plus 6 per cent interest during the first 25 years of its existence. As stated in a newspaper editorial complimenting the bank on its fiftieth anniversary in 1939, "Its record is impressive: resources over $46,000,000; an average gain in resources of $73,000 a month for 50 years; an average gain of $65,000 in deposits per month over 50 years; the successful weathering of three wars and seven depressions."[13]

As pointed out above, branch banking had developed but little in Tennessee before 1920, and what few systems there were embraced only one or two branches. Mr. Preston opened his first branch in 1913, his second in 1922, his third in 1928, and his fourth in 1930. He was, thus, one of the first among contemporary bankers to sense potential advantages in branch banking and to keep pace with its development. However, since his bank had a national charter, the McFadden

[13] *Hamilton County Herald*, Sept. 11, 1939.

Act of 1927 prevented him from establishing new branches outside the city limits, and the 1925 Tennessee law forestalled the possibility of going beyond the county lines with a state bank organization. Thus frustrated, he was quick to see the alternative advantages of a bank holding company of the type originated by the Marine Bancorporation of Seattle in 1927 and used so widely by other groups in 1928 and 1929.[14]

The result was the incorporation on January 20, 1930, of the Hamilton National Associates, Inc. "*To purchase, sell and otherwise acquire, own, hold and deal in stocks of banks, insurance companies, railroads and other corporations, municipal, state and other bonds and securities and generally to carry on the business of a holding company; and as incidental thereto to have and exercise all general corporation powers authorized and conferred by law.*[15] Convinced, as always, of the inherent advantages of branch over unit banking, Preston thought that this would provide the vehicle for building up a large system of affiliated banks in anticipation of legal approval for state-wide or national branch banking. Furthermore, a third Preston brother, Howard P., was at this time a vice-president both of the billion dollar Bank of Italy (a California state bank with many branches) and of Transamerica, Giannini's giant holding company controlling resources of approximately $2,500,000,000. The Bank of America, New York, which was tied in with Transamerica, subscribed to 40,000 shares of Hamilton National Associates stock and elected Thomas R. Preston to its own board of directors.[16]

The forces set in motion by the stock market crash in October, 1929, soon put an end to the current branch banking plans of the Tennessee Prestons. Public sale of Hamilton National Associates stock was withdrawn, and the Bank of America cancelled its subscription when the Hamilton directors refused to grant it a controlling interest.[17] Thomas R. Preston withdrew from the Bank of America's Board, and Howard P. Preston subsequently resigned his positions with Transamerica and the Bank of Italy, later becoming first vice-president of the Federal Reserve Bank of Chicago. The hoped-for state and federal acceptance of broader branch banking did not materialize.

Nevertheless, Thomas R. Preston is sure that sooner or later branch banking will have to be recognized. He modified but did not abandon plans for the Hamilton National Associates and went ahead building up a sizeable group. The greatest benefits of centralized bank control, he feels, can be obtained only through integrating small units into large branch systems, but as a compromise group banking is definitely superior to the independently-operated, single-unit banks which have long characterized banking in most states.

The aims and advantages claimed for the Hamilton Group (hereafter just

[14] Marine Bancorporation, *A Survey of Group Banking in the United States* (Seattle, 1929).

[15] Hamilton National Associates, Inc., incorporation certificate, state of Tennessee, Jan. 20, 1930.

[16] *Chattanooga Times*, Jan. 12, 1930.

[17] *Ibid.*, Apr. 8, 1930.

"Group") were outlined in statements to the stockholders in 1930 and again in 1932. It was pointed out that each banking office benefits from the resources of the entire company. The result is greater diversity of territory served, of investments, and of loans. The stock of the holding company should be stronger than that of any one bank. The managerial experience of all units can be pooled to the gain of all. Loan policies, the heart and soul of a bank, can be developed along sounder lines. Trust services are made available to more communities. Centralized purchasing of supplies and insurance is possible, with consequent savings. More expert attention can be directed to bonds and other investments. More adequate audits of earnings and expenses can be made and sound budget systems established. Cooperation on ideas, methods, and execution of new business campaigns is of great potential value. Sound and enlightened personnel policies become feasible with the broader opportunities for training, promotions, and transfers within the Group.

II

As indicated above, the Hamilton National Associates was incorporated January 20, 1930. The charter provided for initial capital of $1,000,000 represented by 40,000 shares of $25 par and for maximum authorized capital of 800,000 shares, or $20,000,000. Original plans called for the purchase of 40,000 shares at $30 per share by the Prestons, 40,000 shares at $30 per share by eastern financial interests, and the sale of 40,000 shares at $35 per share to the public. The remaining authorized stock was to be used to exchange for shares of desired banks. It was anticipated that 25 or 30 banks all within a radius of about 100 miles of Chattanooga eventually would be acquired.[18] Only 1800 shares were sold to the public, since the offering was almost immediately withdrawn, and the New York financiers cancelled their subscription.

The stockholders of the new holding company met late in June, 1930, to set up their permanent corporate organization. The first financial statement available was that for September 20, 1930. It showed total resources of a little over $3,000,000 consisting almost exclusively of bank stocks. Its own capital stock was valued at $2,514,275. Since this stock had been sold for cash or exchanged for bank stocks at $30 and $35 per share, there was a paid-in surplus of over $500,000. There were approximately 600 shareholders.

The bank stocks had been obtained by paying half in cash and half in Associates stock for shares previously held outright or under option by the Prestons as the result of a quiet campaign of acquisition begun in 1929. Such holdings were sufficient to enable the new Group to announce the affiliation of 16 banks early in April, 1930. Eight more were subsequently added, but mergers ultimately reduced the number in the Group from 24 banks and 3 branches to 17 banks and 4 branches. No new additions have been made since June, 1932. It is obvious, therefore, that it was the policy of the management to acquire only banks already in existence. The one possible exception is the Hamilton National in Knoxville, but even this bank purchased many assets and inherited

[18] *Ibid.*, Dec. 21, 1929.

most of the clientele of the failed Holston-Union which it replaced after an interim of five months. No entirely new institutions were created. An examination of the statements of all banks just before affiliation reveals that the Hamilton Associates' $3,000,000 asset in bank stocks brought to the Group an interest in $4,560,000 par value of bank capital (book value much higher) and in $40,885,000 of deposits. By the end of 1940 the total capital of Group banks had become $5,137,650 and deposits $101,333,831.

It was the serious misfortune of the Hamilton National Associates to have acquired most of its bank stocks at 1929 and 1930 prices. Strenuous efforts were made to maintain values during the ensuing deflation and depression. A quarterly dividend rate of 27½ cents per share had been instituted on October 1, 1930, but soon had to be reduced. A total of 95 cents per share was paid in 1931, 75½ cents in 1932, 45 cents in 1933, 10 cents in the first quarter of 1934, and none thereafter until 1937. The balance sheet continued to reflect fictitious book values rather than market worth until the close of 1937. In December, 1937, the depreciation in market value of securities owned was finally recognized by complete reorganization of the Hamilton National Associates capital structure. The stock was changed from $25 par to no par and exchanged share for share, with the total stated value reduced from $2,582,025 to $1,500,000. The value of bank stocks held was written down from $3,314,004 to $1,847,081. The resultant surplus account showed $37,502, which gave the 103,281 shares of common stock a book value of slightly over $14 each.

This recapitalization reflected current conditions and made possible the resumption of dividends at the annual rate of 15 cents per share. This was increased to 20 cents in 1938, to 25 cents in 1939, and 30 cents in 1940. Successive annual statements show slow but steady improvement in the Associates' financial position and, hence, in the book value of the common stock. The company celebrated its tenth anniversary on January 20, 1940, having spent the major part of its first decade weathering the worst financial storm in United States history. Under its guidance, no affiliated bank was allowed to fail. All losses were absorbed by the Group and other stockholders.

III

In one respect the activity of the Group was unique. It did not attempt to force a standard mold over the affiliated banks as to local practices, policies, organization, or personnel. The Prestons are keenly aware of the tendency of Tennesseans toward local prides and prejudices and toward resentment of intrusion from without. They are anxious to forestall the development of any opposition to group banking and to create an atmosphere conducive to public acceptance of branch banking as soon as possible. However, this indulgent and tolerant attitude was overdone in a few situations, and the failure to replace inbred and unbending personnel in some of the Group banks proved costly.

The Hamilton National Associates is represented on the boards of directors of six banks, and in addition the president or cashier for each of six banks has been drafted from the personnel of the Hamilton National Bank of Chattanooga.

In other banks the original personnel was left intact.[19] It is safe to say, though, that in all cases the Prestons have established a close direct or indirect relationship.

For the most part, then, the internal affairs of the banks are not interfered with, their officials having reported almost complete independence. However, each bank is examined twice a year by the Associates auditor. At this time, internal operations and the general condition are given a thorough review with opportunity for discussion and suggestions. In addition to the semi-annual examination, each bank sends to headquarters a monthly earnings statement, a daily balance sheet, and a list of all notes handled daily. These reports keep the auditor well posted on current development. He rarely offers advice between examinations, however, unless the need is obvious and pressing. There is little or no control over local loans and investments unless requested. Each bank handles its own secondary reserves.[20]

The officials of all the affiliated banks insist that there is no draining off of funds to larger financial centers or discrimination against local borrowers. They state firmly that every legitimate loan application has been accepted. In fact, many large loans which they would have had to refuse before joining the Group because of inadequate resources have been accepted through the cooperation of other Hamilton banks.

The possibility of handling larger loans is one of the important advantages claimed for group banking. A unit bank is limited by the Federal Reserve Act (with certain exceptions) to loans which do not exceed ten per cent of its paid-in capital and surplus.[21] Thus, a bank with $25,000 capital stock and $5000 surplus is unable to lend more than $3000 to any one customer. Business firms often must borrow sums far greater than this or than can be supplied by unit banks in relatively small communities.

During the troubled times of 1932, difficulties were encountered in marketing the tobacco crop. The warehouses at Morristown, Tennessee, needed $450,000 and called upon the only remaining bank in town, owned by the Hamilton Associates. It was impossible for this bank, alone, to meet the demand, but the cooperation of the other Group banks solved the problem for all concerned. The same thing was true in connection with a large loan of over $800,000 needed by Hamilton County in 1935 to prevent a default on its bonds and to continue teachers' salaries. Tax anticipation warrants were assigned to the Hamilton National Bank as collateral, whereupon the loan was distributed to the various banks in the system. Again, when in 1933 the state of Tennessee had to market a $10,000,000 bond issue to cover its deficits, the Hamilton Group purchased over $2,000,000 par value. These are a few of the many instances cited by Mr. Preston illustrating the value of greater lending power achieved through multiple-bank organization.[22]

[19] Letter from D. S. Zachry, Sept. 14, 1940.
[20] Letter from D. S. Zachry, Mar. 23, 1940.
[21] Board of Governors of the Federal Reserve System, *op. cit.*, p. 186.
[22] Letter from D. S. Zachry, Mar. 28, 1942.

Another service performed for member banks by the Group is that of providing experienced assistance whenever desired on the purchase and sale of government bonds and other securities. Convenient arrangements are available for the handling of foreign exchange. Safe deposit boxes and night depositories have been added to local facilities. The trust departments of the larger Group members are prepared to handle such business as may be referred to them by associated banks too small to support a trust division.

Many economies of operation have been effected through Group cooperation, such as that resulting from standardization and improvement of accounting practices. Bank examination has been facilitated. Aid in credit analysis is forthcoming whenever desired. Advertising material can be provided at lower cost. Considerable savings are realized on the joint purchase of supplies and equipment. In the matter of insurance alone about $800 or more per year is gained for each bank through the substitution of a Group blanket bond in place of separate bond coverages.

From the standpoint of the employees, a large banking system offers more numerous and varied opportunities for advancement and attainment of executive status than the small unit banks. On the whole, young men working in various Hamilton banks seem enthusiastic. They point out that in the small unit banks family connections often play the major role, that the staffs of such banks frequently consist of but two or three persons, that small earning power is reflected in low salaries except for one or two executives, and that too often the little bank is controlled by one man, run for his benefit, and upon his death is either liquidated or sold. There are numerous examples of rapid promotion of promising young men within the Hamilton system.

Generally speaking, it appears that friendly and helpful attitudes have prevailed within this rather loosely-knit organization. Many improvements in practices and personnel have been accomplished through cooperative rather than strong-arm methods. Within certain limits the potential advantages of group banking methods have been realized. That more could be done in this direction is admitted by the officials, but social and political factors require judicious treatment to say nothing of numerous legal obstacles.

IV

As was pointed out in the first section of this study, the first efforts of the federal government to regulate bank holding companies were embodied in the Banking Acts of 1933 and 1935 which required such organizations to obtain permits from the Federal Reserve authorities before attempting to vote shares held. These voting permits are issued at the discretion of the Board of Governors only as public interest may require, considering "the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of such bank."[23] It is important to note that the entire structure of holding company regulation hinges solely upon the following words of Section 5144 of the Revised Statutes of the

[23] Board of Governors of the Federal Reserve System, *op. cit.*, pp. 179–181.

United States: ... "shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit as hereinafter provided ..."

No permit may be issued unless and until the holding company has executed an agreement containing certain restrictive and mandatory commitments covering federal examination of the holding company and the banks it controls, the maintenance of liquid reserves in securities other than bank stocks up to 25 per cent of total par value of bank stocks controlled, penalties for false bookkeeping entries, elimination of any interest in a securities selling agency, and payments of dividends only out of net earnings. The permit may be revoked at any time for violation of the agreement or other banking law. After revocation, national banks may not pay further dividends on any shares controlled by the holding company, and at its discretion the Board may force the forfeiture of charters of such national banks and the expulsion from the Federal Reserve System of such state banks as may be controlled by the defaulting holding company.

These legal restrictions on group banking would seem to give the federal authorities ample control over the activities of such organizations. There is one loophole, however. The holding company may decide that it will not vote the shares owned by it in the banks of its group rather than apply for a voting permit. If so, there is no legal necessity for obtaining a voting permit and no liability to execute the agreement required to get such a permit. If cordial relations and cooperative attitudes prevail between the holding company officials and the directors of affiliated banks, there is really no need of voting the shares held. Letting the wishes of the Group executives be known informally would be sufficient to secure the desired action. Moreover, for ordinary legal purposes such as election of directors, it is not necessary that a majority of outstanding stock be voted.

Such a possibility is not theory but fact, for the Hamilton National Associates, Inc., had no voting permit as late as March, 1942. For reasons of its own, involving what it considered unreasonable reserve and other requirements, the company has chosen not to vote the stocks held rather than enter into a voting permit agreement.[24] In general, however, there appears to have been no difficulty in carrying out the Group's policies. Of course, all of the controlled banks are subject to regulation by federal or state authorities, while the holding company itself is examined by the Comptroller of the Currency and publishes audited statements as required by the Banking Acts of 1933 and 1935.[25]

Since all banks in the Hamilton Group are members of the Federal Deposit Insurance Corporation, they must comply with all of its stringent rules and regulations. The F.D.I.C. makes its own examinations only in the case of state banks not belonging to the Federal Reserve System. State member banks are

[24] The company objects particularly to the provisions of paragraph (b), Section 5144, Revised Statutes, which requires the accumulation within five years (*i.e.*, by 1938) of readily marketable assets other than bank stocks equal to 12 per cent of the total par value of bank stocks held and the increase of such liquid assets by 2 per cent each year until a proportion of 25 per cent is reached. Prior to the attainment of this goal, all net earnings over 6 per cent must be applied toward its achievement.

[25] Board of Governors of the Federal Reserve System, *op. cit.*, p. 28.

examined by Federal Reserve authorities and copies of the reports are sent to the F.D.I.C. National banks come under the jurisdiction of the Comptroller of the Currency and are examined at least twice a year by his staff with copies being sent to the F.D.I.C.

From the standpoint of governmental regulation, a conversion of the Hamilton Group into a branch system would be beneficial for both the banks and the various governmental control agencies. As of 1941, the Group had 17 legally distinct banking entities plus the holding company. This means at least 35 examinations per year by four different regulatory bodies. One legal organization combining all 18 concerns would greatly simplify the task of governmental regulation, eliminating a vast amount of duplication as well as the inefficiency of divided authority. Since the banks are required to defray the expense of their examinations, their relief would be tangible as well as otherwise.

There are other reasons why many regulatory officials strongly favor branch banking if held within reasonable limits and accompanied with proper safeguards.[26] It eliminates all difficulties of bank chain and holding company controls. It reduces the number of small and usually weak banks as separate units without depriving country towns of banking services. It makes possible the requirement of larger capital and surplus accounts for the establishment of a bank. It would tend to bring all banks into the Federal Reserve System. It gives a basis for wide diversification of bank investments, and hence insures greater safety through a broad spread of risk. Also, branch banking develops more specialized and therefore more capable and efficient personnel. It presents greater and more varied opportunities to young men and therefore should attract better educated and more capable youths. An end would be put to subsidizing the safety of weak and inefficient banks by assessments on the sound and intelligently-managed institutions through the Federal Deposit Insurance Corporation, since the latter could be modified or dispensed with entirely if all banks belonged to relatively large branch systems affiliated with the Federal Reserve. The resultant lower-cost banking should benefit depositors, borrowers, employees, and communities as well as bankers. It would facilitate the process of rendering deposit currency and Federal Reserve notes more responsive to economic requirements. All of these factors should bring a tremendous improvement in economic stability and social well-being.

Since the state of Tennessee permits branch banking only within the county where the head office is located, the consolidation of the Hamilton Group must await a change in the state law. Thomas R. Preston endeavored to obtain such legislation during three successive sessions of the legislature—1935, 1937, and 1939—but on each occasion a militant group of country bankers supported by some of the confirmed unit bankers of the larger centers put up a successful fight against it.

For the time being, Mr. Preston has abandoned his efforts to obtain general

[26] These statements are based on personal interviews during June, 1939, with one of the top officials of the Federal Reserve System who asked that his name be withheld. For the attitudes of numerous other officials see *Hearings on Branch, Chain* and *Group Banking, House Committee on Banking and Currency,* 71st Congr., 2nd Sess., H.R. 141, Vols. I and II.

branch banking authority in Tennessee and is now seeking only the right to convert his existing Group into a branch system comparable so that of the Commerce Union of Nashville. The bill he proposed in 1939 was so worded as to affect no banks other than those already affiliated as of January 1, 1935. Nevertheless, his opponents argued that this would be an entering wedge for further extension and rallied enough political influence from small-town bankers to kill the bill in committee.

V

At the opening of the year 1942, the Hamilton National Associates, Inc., controlled the same 17 banks and 4 branches which it had after organizational work ceased in 1932. The consolidated statement of December 31, 1941, revealed capital stock of $3,675,000, not including preferred stock in the amount of $1,178,650, surplus of $5,034,231, and deposits of $129,593,172. As an indication of growth, the latter may be compared with deposits of $101,333,831 for the year previous and $38,565,000 for 1932, the latter being the first year of completed organization.

In Chattanooga, the Hamilton National is by far the largest of three major banks, possessing $68,813,000 in deposits against its competitors' combined total of $27,540,000. Similarly, the Hamilton National Bank of Knoxville holds $36,675,000 against deposits of $26,653,000 divided among three competing institutions. Among the remaining 15 banks of the Hamilton Group, only 5 are still faced with rival banks, but these 5 control $12,142,695 in deposits as compared with $9,781,000 held by their 7 competitors, and in only one case is a Hamilton bank not the largest in town. It is interesting to note that, although only three Group banks had no competition when acquired, by 1942 ten Hamilton firms were without local rivals. In four cases failure caused the elimination, and in three other towns absorption by the Group bank forestalled the failure or liquidation of the competing institution. The Hamilton system has stood intact since its origin in 1929.

Today the Hamilton Group is the dominant banking influence in East Tennessee and a significant factor in northern Georgia. In view of the part destined to be played by these areas in the national defense program, with their power facilities, mineral resources, and aluminum industry, the availability of adequate and sound banking facilities is essential. In a subsequent article an attempt will be made to analyze the comparative records of Hamilton and other local banks and to appraise the relative fitness of group and unit banking for past, present, and future requirements.

SOME EFFECTS OF THE FEDERAL FAIR LABOR STANDARDS ACT UPON SOUTHERN INDUSTRY

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The Fair Labor Standards Act[1] became effective on October 24, 1938. For persons "engaged in commerce or in the production of goods for commerce," it established a minimum wage of 25 cents per hour and a maximum work week of 44 hours, except upon payment of time and one-half the regular rate of pay for overtime. These standards remained in effect one year. Beginning October 24, 1939, the minimum wage was increased to 30 cents per hour and the maximum work week without payment of overtime was reduced to 42 hours. Finally, on October 24, 1940, the maximum standard work week was reduced to 40 hours. The Act provides for an increase in the minimum wage, on an industry basis, up to 40 cents an hour, and for a general minimum of 40 cents an hour in 1945, unless otherwise ordered by the Administrator. It also provides for the regulation of child labor, a subject that has been excluded from the present discussion.

The regulation of wages and hours of labor is not a new development in the United States. It has been debated and acted upon in the state legislatures and in Congress for nearly a century.[2] By 1938, when the Fair Labor Standards Act became law, 43 states had maximum hours laws and 25 states had minimum wage laws applicable to women; 40 states had maximum hours laws for certain occupations and one state had a minimum wage law applicable to men; while Congress had established maximum hours and minimum wages for several restricted classes of employees.[3]

The Fair Labor Standards Act differs from previously enacted state legislation in several respects: (a) it sets up an absolute minimum wage, in contrast to the flexible wage provisions of most state laws; (b) it does not limit hours of work directly but penalizes overtime; (c) it applies the minimum wage to men, a provision found in only one previously existing state law, which has since been found unconstitutional. These distinctions may be largely accounted for by differences in motivation. Most state wage and hour legislation has been based upon the principle of protection of health and morals. While such protection is one of the stated objectives of the federal law, major Congressional support appears to have been based upon the belief that it would increase purchasing power and reduce unemployment. The elimination of so-called "unfair competition" and of regional wage differentials was also a factor of some importance. The lower wage structure of the South received its fair share of attention during

[1] 75th Congress, Public No. 718.

[2] O. W. Phelps, "The Legislative Background of the Fair Labor Standards Act." *Journal of Business*, XII, (2), Pt. 2, pp. 1–71.

[3] *Ibid.*, p. 66.

the debates in Congress.[4] For this reason, among others, an examination of some of the effects of the law upon southern[5] industry is pertinent.

I

The industries of the South exhibit certain general characteristics which distinguish them from industries in other sections of the country, especially the more industrialized areas. Industries that predominate in the region are generally those that require a relatively high proportion of unskilled employees.[6] Within industries units of which are distributed throughout the country the proportion of unskilled to total employees is higher in the South than in other areas.[7] Undoubtedly, the large reservoir of untrained labor available has been a significant factor in determining the type of industry established and the pattern of employment within the region.

While the average number of workers per plant is 18 per cent higher, the value of output is 18 per cent lower per plant and 21 per cent lower per worker in the South than in the rest of the nation.[8] A more accurate, though still rough, measure of the productivity of Southern industry is "value added by manufacture." This is 25 per cent lower per plant and 36 per cent lower per worker in the South than in other states.[9] The semirural character of much of its industry and the predominance of the small firm are also factors which distinguish the South from the more industrialized areas of the nation.[10] These general characteristics, to a considerable extent, explain the relatively low wage structure prevailing in the South and have an important bearing upon any analysis of the effects of the Fair Labor Standards Act upon industry within the region.

An attempt to analyze such effects solely in terms of aggregates, however, would be liable to serious error. Wide interindustry variations exist with respect to size of plant and firm, type of product, production technique, capital and marketing costs, labor requirements and other factors. There are also significant intra-industry differences between various areas within the South. The problems involved in estimating the effects of the uniform minimum wage and maximum standard work week upon such a heterogeneous business structure are apparent. Those effects have been anything but uniform both among and within industries. The statistical data necessary for a thorough study of this problem are by no means complete. From the data available, however, we can obtain some indication of the impact of the law upon certain selected industries of major importance in the South.

[4] *Congressional Record*, Vol. 81, pp. 7882–83.

[5] Except as noted, the terms "South" and "southern" refer to the 11 states classified as "the Southeast" by Odum in *Southern Regions of the United States*.

[6] C. Heer, *Income and Wages in the South*, pp. 32 and 41.

[7] This is probably due, in part, to the broad classification of "industries."

[8] Computed from *Census of Manufactures*, 1937. Pt. 1, Table 3.

[9] *Ibid.*

[10] J. Perlman, "Extent and Causes of Differences in Hourly Earnings." *Journal American Statistical Association*, Mar., 1940; pp. 1–12.

II

When the Fair Labor Standards Act became effective, the proportion of employees earning less than the minimum wage was substantially higher in the South than in other parts of the country. This is shown in every industry wage survey made by the United States Bureau of Labor Statistics during 1938.[11] Variations among, and even within, industries in the South, however, were as significant as those existing between the South and other regions. A survey of entrance wage rates paid common labor in 20 industries, in July, 1938, provides an indication of these interindustry differences within the South.[12] The iron and steel, oil refining, and cement industries reported no common labor paid less than the minimum wage. On the other hand were such industries as fertilizer with 17 per cent, brick and tile with 27 per cent and sawmills with 43 per cent of their common labor receiving entrance wages of less than 25 cents an hour.[13]

While the above survey covered only common labor, the picture it presents of the impact of the law upon certain southern industries is probably not exaggerated. Undoubtedly, a part of the labor force, other than common labor, in the lower-wage industries received less than the minimum.[14] A survey of the cottonseed crushing industry,[15] where unskilled labor constitutes most of the labor force, showed 55 per cent of all labor receiving less than 25 cents an hour during the 1937–38 season. Further, a study of a larger sample of the 20 industries referred to above, conducted a year later, indicates that the original sample was probably somewhat weighted in favor of the better-paying plants.[16]

Like the establishment of the 25 cent minimum, the increase in this minimum to 30 cents an hour, in October, 1939, affected different industries in varying degree. Most significantly affected, of course, were the same industries which had a large proportion of their labor force earning less than 25 cents an hour a year earlier. In addition, a substantial number of workers in the glass, leather, foundry and machine shop, meat packing, and paint and varnish industries were receiving less than 30 cents an hour in the summer of 1939.[17] In every industry for which data are available, the proportion of workers affected by the increase was much greater in the South than in the rest of the nation. Of the 690,000 workers estimated to be receiving less than 30 cents an hour in the spring of 1939, 54 per cent were in the South.[18]

The textile industry, largest employer of labor in the South, whose wage level

[11] *Monthly Labor Review*, various issues during 1938 and 1939.

[12] E. K. Frazier and J. Perlman, "Entrance Rates of Common Laborers, July, 1938," *Monthly Labor Review*, Jan., 1939, pp. 161–75.

[13] *Ibid.*

[14] "Wages and Hours in the Fertilizer Industry, 1938," *Monthly Labor Review*, Mar., 1939, pp. 666–81.

[15] Conducted by the National Cottonseed Products Ass'n.

[16] E. K. Frazier and J. Perlman, "Entrance Rates of Common Laborers, July, 1939," *Monthly Labor Review*, Dec., 1939, pp. 1450–65.

[17] *Ibid.*

[18] U. S. Dept. of Labor, *First Annual Report of the Administrator of the Wage and Hour Division, 1939*, p. 39.

has probably been the most frequently criticized, appears to have been not so greatly affected (proportionately) by the Fair Labor Standards Act when first enacted as were a number of other southern industries. The data available for this industry reveal the significance of intra-industry variation. The "textile industry" is an all-inclusive term, covering a wide variety of activities. In August, 1938, approximately 11 per cent of the employees in cotton goods manufacturing plants in the South were earning less than 25 cents an hour.[19] The proportion of such employees in the spinning division of the industry was 13 per cent, excluding maintenance, power and service departments.[20] On the other hand, the combed yarn spinning mills, producing the finer yarns, were operating on a 40 hour week and paying employees at least the minimum wage.[21] Even the wage order, increasing the minimum wage to 32.5 cents an hour on October 24, 1939, did not significantly affect this branch of the industry.[22]

The hosiery industry provides one further illustration of the difficulties inherent in generalizing about the effects of the law, even upon industries within the South. When the Act went into effect, about 7 per cent of the employees in southern plants producing full-fashioned hosiery were receiving less than 25 cents an hour.[23] In contrast, about 26 per cent of the employees in southern seamless hosiery plants were earning less than the minimum.[24] The differences between the two branches of this industry are so sharp that different minimum wages have been established in orders issued by the Administrator. It is entirely reasonable to assume that thorough investigation would reveal comparable differences within other groups of industrial units that are treated as single industries.

III

The results flowing from the increase of wage rates in southern industries are difficult to isolate. The Fair Labor Standards Act became effective at a time when industry in general was just beginning to recover from a depression of unusual severity. Industrial production had begun to rise in the summer of 1938 and, with a few minor and brief interruptions, has continued upward ever since.[25] This fact tends to obscure the influence of the law upon costs and upon employment. The opinion is generally held by industry executives with whom the writer has talked that the full impact of the law will not be realized until the business cycle has turned downward. However, some of the effects of the law are suggested by information at present available.

[19] A. F. Hinrichs, *Wages in Cotton-Goods Manufacturing*, U. S. Bur. of Lab. Stat., Bulletin No. 663, p. 84.

[20] *Ibid.*, p. 113. Inclusion of these departments would probably increase this percentage.

[21] Information furnished by Southern Combed Yarn Spinners Ass'n. Also, see M. G. Barnwell, *Faces We See*, p. 107.

[22] *Ibid.*

[23] J. Perlman, and H. E. Riley, "Earnings and Hours in the Manufacture of Full-Fashioned Hosiery," *Monthly Labor Review*, May, 1939, pp. 1147–71.

[24] "Earnings and Hours in the Manufacture of Seamless Hosiery, 1938." *Monthly Labor Review*, June, 1939, pp. 1388–1403.

[25] *Survey of Current Business*, Aug., 1940, p. 12. Also 21; (7); July, 1941, p. 19.

In the cottonseed industry, which was one of those most affected by the law, the average hourly wage rate increased 30 per cent between 1937–38 and 1939–40.[26] Intra-industry variation is again apparent in the fact that the increase was 43 per cent in the Southeast, 36 per cent in the Valley States, and 17 per cent in the Southwest. Similar variations occurred within each of these groups of states. The increase affected all classes of labor. Common labor enjoyed the largest increase while the rate for skilled labor, of which there is very little in the oil mills, rose the least. As a result, the wage differential between different classes of labor has been materially reduced.

The sharp increase in hourly wage rates in this industry was not accompanied by a comparable increase in labor costs. As is well recognized, hourly rates are only one factor in the determination of such costs. The increase in wage rates has, to a considerable extent, been offset by a decline in the number of workers employed. In the two years following the enactment of the Act employment of hourly workers in cottonseed oil mills during the crushing season decreased 19 per cent.

This decline can be explained in terms of previously-existing practices within the industry. Cottonseed crushing is a seasonal industry carried on very largely in rural communities and smaller cities. The unskilled labor required has been plentiful and inexpensive, with the result that labor efficiency has not received a great deal of attention. The industry formerly ranked at or near the top in the number of workers employed in relation to the value of output.[27]

With the establishment of a legal minimum wage, there has been a general re-examination of labor policies with the objective of increasing efficiency. One result of this is the widespread abandonment of the traditional 12 hour shift. While the cottonseed industry is specifically exempt from the hours provisions of the Fair Labor Standards Act,[28] a substantial majority of the mills have, in recent years, voluntarily adopted the 8 hour shift. Some mills are even operating on a 6 hour shift. During the crushing season, most mills run 24 hours a day. It would be natural to expect that the change from two to three shifts per day would increase the number of workers employed. Actually, the reverse has occurred. The elimination of inefficient workers and an increase in the efficiency of those still employed, resulting from a combination of factors, has made possible a net reduction in employment despite the shortening of the work shift.

An important factor contributing to the reduction in the number of employees in the industry has been the adoption of labor-saving machinery. While no data are available on the subject, it is known that a large number of mills have substantially improved their mechanical equipment during recent years. What this suggests for the future is indicated by the fact that a recently developed cooking and crushing unit of 100 tons daily capacity requires the services of one

[26] Data on the cottonseed industry, presented here, are based upon an unpublished survey of 197 identical mills for three seasons, 1937–38, 1938–39, and 1939–40, conducted by the National Cottonseed Products Assn.

[27] John F. Leahy, "Processing Oil Seeds and Nuts. Pt. 2." *Southern Power and Industry*, Feb., 1941, p. 63.

[28] Sec. 7 (c) of the Act.

skilled operator per 8 hour shift, as compared with the 6 or 7 workers per shift necessary for the type of equipment in general use.[29] Prior to the establishment of the minimum wage, it was not generally practicable to introduce this type of equipment. With a minimum wage of 30 cents an hour, such equipment produces savings that more than offset its costs and it has already been installed in a number of mills, including the first completely new mill erected in the industry in 25 years.

During the first two years of the Fair Labor Standards Act, gross wages per hour in the cottonseed industry increased approximately 6 per cent. It is doubtful, however, that unit labor costs for the industry as a whole increased as much as this. The writer knows, personally, of a number of mills that have actually reduced unit labor costs since the Act went into effect. Such a reduction was made despite declining volume. On the other hand, the use of averages, in this as in other instances, is likely to be deceptive. The minimum wage has resulted in significant cost increases for some units of the industry. There is a general tendency for such increases to be heavier in the smaller, rural mills. This is a condition likely to prevail in all industries, because of the tendency of wages to vary with the size of firm and community, and because the smaller firm is frequently not in a position to take advantage of some of the economies available to its larger competitors.

While it is the thesis of this discussion that the effects of the Fair Labor Standards Act, with respect to wage differentials, employment, and labor costs, have been far from uniform both among and within industries, there is evidence that the experience of certain other southern industries has been similar to that of the cottonseed crushing mills. A study of the seamless hosiery industry,[30] for example, shows that the establishment of the 25 cent minimum wage substantially reduced the wage differentials previously prevailing in that industry With an increase in the volume of business, employment in the industry as a whole was 10.1 per cent higher in the first nine months of 1939 than it was during 1938. However, in those plants that had an average wage below 25 cents, prior to the establishment of the minimum, employment during the first nine months of 1939 was 7.4 per cent below the level of 1938.

Adjustment to higher wage rates was made by several methods. Employees who were unable to earn the minimum wage on a piece-rate basis were released. Some mills altered their equipment so as to produce a different type of product, thereby changing their competitive position. Other mills, which had been operating obsolete "hand transfer" machines, replaced such equipment with modern automatic machines.[31] Thus, the law has forced the lower wage plants to increase their efficiency in order to survive.

[29] Leahy, *op. cit.*

[30] A. F. Hinrichs, "Effects of the 25 cent Minimum Wage on Employment in the Seamless Hosiery Industry," *Journal of the American Statistical Association*, 35, (209), pp. 13–23. While this study covered the industry as a whole, this industry is concentrated in the South.

[31] *Ibid.*

Another survey of the seamless hosiery industry,[32] conducted in 1940, emphasizes the influence of the law upon employment in the lower wage plants. Employment in 91 identical plants declined 2.9 per cent between 1938 and 1940. During the same period, however, in those plants that had an average wage in 1938 below 32.5 cents an hour, the minimum established by administrative order, employment declined 12.8 per cent. These lower-wage plants were, for the most part, located in the South. The survey provides a regional breakdown which shows that, over the two-year period, employment in northern plants increased by 4.9 per cent but decreased 5.5 per cent in southern plants.[33] These shifts in employment cannot be arbitrarily attributed in their entirety to the Fair Labor Standards Act. Some shifting undoubtedly occurs continually. It does appear, however, that the law can be considered as the factor primarily responsible.

The southern lumber industry offers a further illustration of the adjustments brought about by the Fair Labor Standards Act. As in the cottonseed and hosiery industries, wage differentials in lumber were significantly reduced following the establishment of the minimum wage.[34] In the winter of 1939–40, 50 per cent of the employees in this industry (southern branch) were earning exactly 30 cents an hour, the legal minimum.[35] Under a recently announced wage order, this minimum has been increased to 35 cents an hour. On the basis of 1939–40 data, this order would require an increase in the hourly wages of 76 per cent of the employees in the industry.[36]

Lumber in the South is fundamentally a man-power industry, with labor accounting for approximately 40 per cent of the total cost of production.[37] The Fair Labor Standards Act has stimulated efforts toward greater mechanization. Progress in that direction is limited, however, by the fact that timber stands in the South are relatively small and isolated. In contrast, the West which has mechanized produces five times as much lumber per mill as the South and pays much higher wages. As the result of its inability fully to utilize technological improvements, the southern branch of the industry has been faced with substantially increased labor costs.

These costs have, to a considerable degree, been absorbed by increases in the volume of production and in prices. Employment in the industry as a whole has increased since enactment of the Act, although the situation with respect to individual mills or groups of mills has not been investigated. The opinion is generally held within the industry that, when present volume and prices decline,

[32] H. M. Douty, "Minimum Wage Regulation in the Seamless Hosiery Industry," *Southern Economic Journal*, VIII, (2), pp. 176–190.

[33] *Ibid.*, p. 184.

[34] Information furnished by Southern Hardwood Producers Assn.

[35] "Hourly Earnings in the Lumber and Timber Products Industry," *Monthly Labor Review*, July, 1941, pp. 187–208.

[36] *Ibid.*

[37] Information furnished by Southern Hardwood Producers Assn.

the legal minimum wage will have a significantly adverse effect upon employment.

One development in the lumber industry, arising out of the law, may be worth mentioning. A number of mills appear to have adopted the practice of selling their entire output for consumption within the state in which they operate.[38] This removes them from "interstate" commerce and from the jurisdiction of the Act. It is doubtful, however, that such a movement can be very widespread. The Administrator has ruled that employees will be deemed within the coverage of the Act if "the employer intends, hopes or has reason to believe" that his products will move in interstate commerce. That some of the smaller mills are operating on an intrastate basis is indicated by the fact that, in the winter of 1939–40, 6.6 per cent of the employees in the industry were earning less than 30 cents an hour.[39] While the proportion is small, it may seriously affect, in particular markets, the position of mills operating on an interstate basis.

IV

In a presentation of this nature, it is possible to review only a few of the highlights of so comprehensive a subject as the effects of the Fair Labor Standards Act upon southern industry. These may be briefly summarized as follows:

1. Because of the generally lower wage level prevailing in the South, the proportion of industrial employees affected by the Act was much greater in that area than in any other part of the nation.

2. The impact of the law varied considerably among industries within the South. Comparable variations also occurred among different plants or groups of plants within particular industries.

3. There has been a tendency, at least in the industries cited, for wage differentials, both among and within plants, to be reduced.

4. The Act has encouraged better management practices and the installation of labor-saving equipment. As a result, the increase in labor costs has been considerably less than the increase in wage rates. In some instances unit labor costs have even been reduced.

5. The Act has tended toward some reduction in employment in southern industries. In general, this has been more than offset by a rising volume of production. The opinion is generally held by industry executives that the full effects of the law upon employment will not be realized until the volume of production again declines.

The present survey indicates the need for much further research before anything more than tentative conclusions may be drawn regarding the Act's over-all effects upon the South. There is no question that the law imposes a greater burden, in terms of wage-rate increases and working hours limitations, upon southern industry than it does upon industry in other regions. Can the industries of the South, with generally higher transportation costs, with lower output per worker, and without the industrial background and experience of

[38] Information furnished by Southern Pine Association.

[39] *Monthly Labor Review*, July, 1941, *op. cit.*

the North, adjust themselves to these new conditions without adverse effects upon production, employment and income? Will those workers who are disemployed as a result of the law find other employment within the South? Will industry in the South continue to expand, providing essential employment for that part of the population which is being displaced from agriculture? What effect has the increase in wage rates, in the processing industries, upon agricultural income? These are practical questions to which we need much more complete and realistic answers than have yet been given. Such answers, together with the policies they may suggest, have a highly significant bearing upon the future development of the South.

A GENERAL WAGE CEILING

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One of the principal issues in the current discussion upon the advisability of establishing a general price ceiling for the purpose of curbing inflationary tendencies in our economy is whether or not wages should be included in the ceiling. Bernard Baruch, chairman of the War Industries Board of World War I, argues that if the price-ceiling method of preventing inflation is to be employed successfully, a universal price ceiling including wages is necessary. Leon Henderson, present price administrator, contends that a partial ceiling placed on a substantial number of strategic commodities, but excluding labor, would suffice to stop further price rises.

This paper attempts to strip the issue of all political implications and to demonstrate the economic wisdom of including wages in a general price ceiling. At the same time it is granted that other methods for the control of inflation, particularly increased taxation, are undoubtedly much more effective and should be employed along with a general price ceiling.

I

Inflationary forces at work in our economy are being driven on by the rapidly mounting volume of purchasing power which our armament boom is generating.[1] Not only is the quantity of money available for consumer purchases rapidly growing, but the velocity of turnover of the greater supply is also increasing, thus further augmenting the quantity of "effective money."[2] At the same time that it pours new purchasing power into the American economy, however, our armament program gradually is curtailing the supply of consumer goods available for purchase.[3] Rising prices, therefore, are merely the outcome of a process in which buyers, armed with increased purchasing power, bid for a contracting supply of consumer goods.[4] For the avoidance of further price rises, therefore, it is necessary to put an end to the spiralling of purchasing power, and at the same time to exhaust every means for preventing additional unnecessary de-

[1] During the 15 months preceding September, 1941, the volume of bank deposits in American banks increased by about 6.5 billion dollars, or over 10 per cent. This increase represented "new money" for the most part because bank loans and investments increased by about the same amount during that period. Cf. *Federal Reserve Bulletin*, Oct., 1941, p. 964.

[2] Bank debits to deposit accounts have shown a gradual increase during 1940–1941. Cf. *ibid.*, p. 1014.

[3] *Ibid.*, p. 965. Cf., also, National City Bank of New York, Letter for November, 1941, p. 121.

[4] To a very large degree, also, rising prices are due to scarcities in supply occasioned by the growth of manufacturers' inventories of raw materials and goods in process. Cf. *Federal Reserve Bulletin*, Oct., 1941, pp. 966–967 and National City Bank of New York, Letter of Nov., 1941, p. 129.

creases in the supply of consumer goods. Admittedly very little can be done in the latter direction. In the absence of steps designed to drain off purchasing power already in the hands of consumers, or to shut off a further expansion of purchasing power, the fixing of a general price ceiling will result in a hidden inflation, i.e., rationing of goods.

The establishment of a general ceiling on wages, as part of a universal price ceiling, offers one very important way to prevent further increases in the purchasing power available to labor. Inasmuch as it is the laboring class which is primarily responsible for the keen bidding for a scarcer supply of consumer goods, much can be accomplished in the direction of dampening down labor's growing demand for goods if new hourly wage increases are not allowed. It is granted that labor as a group may still find its purchasing power augmented as a result of the fact that hitherto unemployed workers with unsatisfied desires become employed and already employed men work longer hours.

A strong argument for a ceiling on wages, if a general price ceiling on commodities is adopted, is that wage payments are merely the prices placed on labor and are thus part of the general price structure. In our economy there is a rather delicately balanced interconnected network of prices—prices of finished goods, raw materials, and factors of production. Wage rates are ordinarily thought of as costs of production, but nevertheless they are prices for the labor factor which is employed in the productive process. As a matter of fact, wages represent a very significant part of our price structure inasmuch as wage costs very often constitute one of the most important costs of the business entrepreneur. In view of the position of wages in our structure of prices, it seems that to fix a general price ceiling, at the same time permitting further wage increases, would lead inevitably to a situation in which there would be generated an explosive upward push on the general price ceiling.[5] It would seem that as a result the price administrator would be forced to allow higher price ceilings if the armament program were to continue under private initiative. Otherwise, rising costs would tend to wipe out industrial profits and thus discourage the production of armaments. It is true, of course, that there might be a successful resort to government operation of armament factories, any losses being financed out of increased taxation.

Another development which would probably grow out of a rigidly enforced general price ceiling, excluding wages, would be the development of a "black bourse" in which commodities would sell above the ceiling prices. A general

[5] It has been argued, of course, that if a general price ceiling is fixed for a broad group of strategic commodities, all other prices, including wages, will cease to rise. This appears to be too optimistic a belief, however. It is based on the assumption that during an upswing of prices labor seeks higher money wages merely to maintain its real wages. It would seem perfectly logical to suppose that if rising prices were stopped, labor might still demand higher money wages in order to increase real wages, i.e., to improve its position in terms of its income share. If agricultural prices are allowed to continue their increase, moreover, labor may be forced to seek higher money wages despite a general price ceiling. Already, more than two-thirds of the increase in the cost of living has been due to higher food prices. Cf. National City Bank of New York, Letter for November, 1941, p. 122.

price ceiling, furthermore, which allowed additional wage increases would necessarily lead to widespread rationing of consumer goods because of the fact that the pricing system would no longer be able to exercise its function of distributing scarce goods, i.e., it would be unable to offset by means of price rises the increased purchasing power in consumers' hands. The outcome would be that rationing would be required to prevent the quick exhaustion of a scarce supply of goods by consumers armed with an ever expanding quantity of purchasing power.

One of the more frequently advanced arguments offered against a wage ceiling is that it would result in a gross injustice to labor. It has been often stated

TABLE I

HOURLY WAGE RATES, ALL MANUFACTURING INDUSTRIES COMBINED*

	cents		cents
1939—Jan.	65.1	1940—June	67.2
Feb.	64.9	July	66.7
Mar.	65.1	Aug.	66.7
Apr.	64.8	Sept.	67.1
May	64.9	Oct.	67.3
June	64.8	Nov.	67.8
July	64.3	Dec.	68.3
Aug.	63.4	1941—Jan.	68.9
Sept.	63.5	Feb.	69.2
Oct.	64.5	Mar.	69.7
Nov.	65.3	Apr.	70.8
Dec.	66.2	May	72.6
1940—Jan.	66.3	June	73.8
Feb.	66.3	July	74.3
Mar.	66.5	Aug.	74.5
Apr.	66.5	Sept.	75.8
May	66.9		

* Figures are collected from the *Monthly Labor Review.*

that during the boom phase of any business cycle, money wages tend to rise more slowly than the prices of goods purchased by labor, thus causing a decline in real wages.[6] Utilizing this idea, many are of the opinion that to place a ceiling on wages at the present time would be unfair to labor because during the armament boom real wages have been falling.

A glance at Tables I–V and Chart I shows that the reverse has been true. Table II reveals that money wages have increased from 98.0 in August, 1939, to 117.2 in September, 1941, whereas Table IV shows that the cost of living has jumped from 101.1 in September, 1939, to 108.7 in September, 1941. During the same period, therefore, real wages increased from 97.0 to 107.8.[7] It appears

[6] For example, cf. J. M. Keynes, *The General Theory of Employment, Interest, and Money,* p. 10.

[7] Real wages are found by dividing the money wages in each instance by the cost of living. Cf. Table V.

evident that thus far our armament boom has caused a substantial rise in real wages rather than a fall.[8] In terms of the orthodox marginal productivity theory of wages this phenomenon seems unexplainable. The answer lies primarily in the fact that the armament boom developed in an economy where

TABLE II

Index of Money Wage Rates, All Manufacturing Industries Combined, 1939=100*

1939—Jan.	100.6	1940—June	103.9
Feb.	100.3	July	103.1
Mar.	100.6	Aug.	103.1
Apr.	100.2	Sept.	103.7
May	100.3	Oct.	104.0
June	100.2	Nov.	104.8
July	99.4	Dec.	105.6
Aug.	98.0	1941—Jan.	106.5
Sept.	98.1	Feb.	107.0
Oct.	99.7	Mar.	107.7
Nov.	100.9	Apr.	109.4
Dec.	102.3	May	112.2
1940—Jan.	102.5	June	114.1
Feb.	102.5	July	114.8
Mar.	102.8	Aug.	115.2
Apr.	102.8	Sept.	117.2
May	103.4		

* This index is derived from Table I.

TABLE III

Cost of Living Index, 1935-1939=100*

1939—Mar. 15	99.1	1941—Jan. 15	100.7
June 15	98.6	Feb. 15	100.8
Sept. 15	100.6	Mar. 15	101.2
Dec. 15	99.6	Apr. 15	102.2
1940—Mar. 15	99.8	May 15	102.9
June 15	100.5	June 15	104.6
Sept. 15	100.4	July 15	105.2
Nov. 15	100.1	Aug. 15	106.0
Dec. 15	100.7	Sept. 15	108.1

* These figures are taken from the *Monthly Labor Review*. The figures are for goods purchased by wage earners and lower-salaried workers in 34 cities. The items included are food, clothing, rent, fuel, electricity, ice, house furnishings, and miscellaneous.

there were idle plant facilities and unemployed labor. In other words, many factories were operating in a stage of falling average costs. It was possible,

[8] J. T. Dunlop and L. Tarshis find the same phenomenon to have been true of previous boom periods, both in the United States and Great Britain. Cf. J. T. Dunlop, "The Movement of Real and Money Wages," *Economic Journal*, 1938, pp. 413–434; L. Tarshis, "Changes in Real and Money Wages," *Economic Journal*, 1939, pp. 150–154.

TABLE IV

Cost of Living Index, 1939=100*

1939—Mar. 15	99.6	1941—Jan. 15	101.2
June 15	99.1	Feb. 15	101.3
Sept. 15	101.1	Mar. 15	101.7
Dec. 15	101.1	Apr. 15	102.7
		May 15	103.4
1940—Mar. 15	100.3	June 15	105.1
June 15	101.0	July 15	105.7
Sept. 15	100.9	Aug. 15	106.5
Nov. 15	100.6	Sept. 15	108.7
Dec. 15	101.2		

* Figures are derived from Table III.

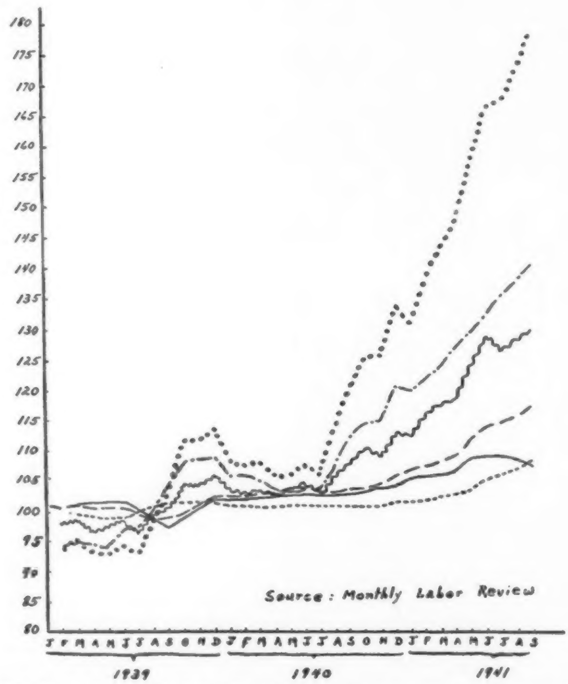

Chart I. Indices of Money Wages, Real Wages, Employment, Pay Rolls and Average Weekly Earnings, All Manufacturing Industries Combined and Cost of Living

....	Payrolls	— — — —	Money Wages
-.-.-.-.-	Employment	————	Real Wages
~~	Average Weekly Earnings	----------	Cost of Living

therefore, to hire more laborers and to pay them increasingly higher wages without raising prices because higher variable costs were offset by a greater decline in fixed costs as the plants moved to more nearly the best point of operation in terms of average costs. In addition to reductions in average costs with improved utilization of existing operating capacity, the increased demand occasioned by the armament program enabled many plants in decreasing cost industries to expand their plant capacity and thus to lower their entire average cost curve.

Whatever the cause for the rise in real wages, the fact remains that it has occurred. Opponents of a general wage ceiling might argue that if living costs have not advanced more sharply than money wages, and if as a result real wages have been rising, why would it not be sound policy to permit further increases in money wages? The answer lies in the real wage figures for the period May–

TABLE V

Index of Real Wage Rates, 1939=100*

1939—Mar.	101.0	1941—Jan.	105.2
June	101.1	Feb.	105.6
Sept.	97.0	Mar.	106.0
Dec.	101.2	Apr.	106.5
		May	108.5
1940—Mar.	102.5	June	108.6
June	102.9	July	108.7
Sept.	102.8	Aug.	108.2
Nov.	104.2	Sept.	107.8
Dec.	104.4		

* This index is derived by dividing the money wage rate (Table II) by the cost of living (Table IV) for each month. It is not strictly accurate because the money wage rates are monthly averages whereas the cost of living figures are for the 15th of each month.

September, 1941. They show that real wages have tended to level out, with a slight decline in the September figure below that of July and August. We have argued that under the armament boom to date the expanding demand for all commodities has enabled entrepreneurs to utilize their plant capacities to a fuller degree and thus to reduce average fixed costs. Despite substantial increases in average variable costs, i.e., labor and raw materials, there was nevertheless a decline in average total costs because of the fact that fixed costs fell more sharply than variable costs rose. The real wage figures for May–September, 1941, indicate that manufacturers have exhausted the possibilities of lowering average costs through a better utilization of plant capacity. The outcome is that new increases in money wages are causing higher average costs and are being reflected in higher prices, with a resultant halt in the rise of real wages. It can be seen, therefore, that the possibility of expanding real wages through increased operating efficiency is largely closed. From now on successful demands for higher money wages are very likely to be offset by higher prices and lower real wages.

It may be argued that in a period of rapidly increasing profits (cf. Table VI) real wages should be allowed to grow to some degree out of such profits.[9] Aside from the problem of how far we could go in this direction without destroying private initiative, there still remains the fundamental danger of increasing labor income during a period in which the supply of goods available for purchase is declining. If it is true that profits are growing too rapidly, the proper remedy for the purpose of curbing inflation is an increase in the excess profits tax, not the transfer to labor of part of the profits.

It would seem that it is perfectly fair to labor to freeze wages at the present level as part of a general price ceiling. Real wages have risen substantially since August, 1939. In addition, Table VII and Chart I show clearly that

TABLE VI

Quarterly Profits of 200 Leading Corporations

(1939 = 100)

Quarter	Dollar Volume of Profits*	Index of Profits, 1939 = 100
Jan.—Mar., 1939	$203,011,000	81.2
Apr.—June, 1939	217,896,000	87.2
July—Sept. 1939	201,664,000	80.7
Oct.—Dec., 1939	376,915,000	150.9
Jan.—Mar., 1940	326,490,000	130.7
Apr.—June, 1940	305,513,000	122.3
July—Sept., 1940	253,323,000	101.4
Oct.—Dec., 1940	380,293,000	152.2
Jan.—Mar., 1941	383,221,000	153.4
Apr.—June, 1941	377,000,000	150.9

* Figures on profits are net, i.e., after reserves for taxes and depreciation have been deducted.

Source: National City Bank, New York.

labor has greatly benefited from the armament boom in the form of rapidly expanding employment, pay rolls and average weekly earnings. It seems quite apparent, therefore, that to place an immediate ceiling on wages as part of a general price ceiling would not cause an injustice to labor.

Even if we were to concede, contrary to fact, that to fix wages at their present level would result in an injustice to labor, a strong argument can be offered to show that in the long run labor may suffer more from the failure to place a ceiling on wages than from the fact that the ceiling is fixed. This is true because the lack of a wage ceiling endangers the success of an otherwise general price ceiling. If unbridled wages caused the collapse of the general price ceiling, as it might easily so do, and thus brought about sharply rising prices, one class

[9] It is probably true that some small portion of the real wage gains already realized has been at the expense of industrial profits.

which would be penalized most would be labor. Because of the stickiness of money wage rates during a period of speedily rising prices,[10] and because of lack

TABLE VII

INDICES OF FACTORY EMPLOYMENT, PAY ROLLS, AND AVERAGE WEEKLY EARNINGS, ALL MANUFACTURING INDUSTRIES COMBINED, 1939 = 100*

YEAR AND MONTH	EMPLOYMENT	PAY ROLLS	AVERAGE WEEKLY EARNINGS
1939—Jan.			
Feb.	94.3	93.6	97.6
Mar.	95.0	95.3	98.4
Apr.	94.8	93.0	96.7
May	93.7	92.5	97.0
June	97.0	94.8	98.4
July	97.3	92.5	96.2
Aug.	100.2	98.4	99.5
Sept.	104.2	102.8	100.3
Oct.	107.8	111.5	104.8
Nov.	108.0	111.5	104.6
Dec.	108.3	113.9	106.6
1940—Jan.	105.5	108.0	103.5
Feb.	105.5	107.3	102.3
Mar.	105.0	108.0	103.3
Apr.	103.6	105.8	102.8
May	103.0	105.7	103.2
June	103.5	107.5	104.7
July	103.6	106.1	102.5
Aug.	107.9	114.0	106.0
Sept.	112.0	120.7	107.7
Oct.	114.4	125.5	110.1
Nov.	115.0	125.8	109.3
Dec.	120.7	134.2	113.2
1941—Jan.	120.0	131.2	112.5
Feb.	122.4	139.1	116.0
Mar.	124.6	143.9	118.1
Apr.	127.4	147.7	118.4
May	130.0	158.0	124.8
June	132.9	166.8	129.0
July	135.7	167.5	126.6
Aug.	138.0	173.0	128.4
Sept.	140.4	178.2	130.0

* These figures are taken from the *Monthly Labor Review*. In this table the base year of 1923–1925 employed by the Bureau of Labor Statistics for employment and pay rolls has been changed to 1939.

of knowledge on the part of labor of measures to mitigate the catastrophic effects of inflation, it has always been true that labor has suffered most severely

[10] That is, after the point in which factories were operating at full capacity.

from inflation. If it is true, therefore, that unrestrained increases in money wages are likely to lead to spiralling prices, and if such a process causes great privation to labor, it would seem that labor would be far better off to make relatively small sacrifices now in the form of any possible injustices a general wage ceiling would occasion as part of a general price ceiling.

II

It appears evident, in conclusion, that there are at least four important reasons why a ceiling on wages should be fixed immediately as part of a general price ceiling. They are as follows:

1. A ceiling on wages would offer a significant means of preventing further increases in purchasing power available to potential consumers during a period in which the supply of purchasing power has already outrun the decreasing supply of consumer goods.
2. A general price ceiling would be destroyed if wages were not included in it because of the importance of wages, the price of labor, in a closely knit national price structure.
3. A wage ceiling fixed immediately would not be likely to subject labor to any injustice because real wages at present are higher than they were at the outbreak of the war. The stage seems to have been reached, however, where further wage demands will result in lower real wages. In addition to an improved real wage, the armament boom has brought about a sharp increase in employment, pay rolls, and average weekly earnings.
4. If unbridled wages increase the risk of inflation, in view of the drastic consequences to labor of an inflationary movement it should now be willing to endure any slight injustice which might be caused by a wage ceiling.

THE WAR AND AN AGRICULTURAL ECONOMY: THE CASE OF COLOMBIA[1]

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The outbreak of war in September, 1939, and the imposition of the British blockade of Germany, rapidly followed by the spread of the conflict, the conquets of most of continental Europe by the Reichswehr and the subsequent extension of the blockade to the conquered areas, created substantial economic difficulties for the republics to our south. Some of these had exported previously a large part of their goods to Europe. The loss of these markets, which could not be replaced, made impossible the maintenance of the prewar level of production and of imports. Some nations, exporting larger shares of their product to Europe than others, suffered greater disruption of their economy than those selling chiefly to the United States. But all have had to face new problems in the last two years.

Colombia, trading chiefly with the United States, has probably been among those states least affected by international events. As the second largest exporter of coffee, however, it has been concerned with the problem of coffee prices in New York and with that of surpluses. Furthermore, the possibility of inflation in the United States, of revaluation of the dollar, or of the abandonment of gold purchases by our country carries a threat of potentially serious reactions upon the Colombian economy. The third nation in South America in population, Colombia is the nearest neighbor to the Panama Canal. Its economy is so closely tied to that of the United States that the maintenance of economic equilibrium there sufficient to forestall any likelihood of revolution and the establishment of an unfriendly government appears to be the basis of recent American policy. Political expediency rather than economic necessity would seem to have motivated some of our "good neighborliness." In the following pages I shall try to indicate the nature and extent of the economic problems thrust upon Colombia by the war, to describe the alleviative and remedial measures that have been adopted with respect to these problems, and to evaluate their efficacy.

I

For 40 years Colombia has enjoyed internal peace. This has permitted a rapid economic development of the country, but despite efforts to diversify production and to achieve greater self-sufficiency, particularly in the last ten years, coffee remains the basis of the economy. Manufacturing has not developed extensively, and most consumers' goods bear American trade-marks. Textiles in part have come from England and mechanical equipment in part

[1] The author is indebted to the Social Science Research Council and the Duke University Research Council for assistance which has made this study possible.

TABLE I

LEADING PRODUCTS IN COLOMBIAN FOREIGN TRADE, 1937-1939[2]

	1937		1938		1939	
	Value (000) pesos	Per cent	Value (000) pesos	Per cent	Value (000) pesos	Per cent
Exports						
Coffee	99,172	53.9	88,775	54.4	87,125	49.2
Crude Oil	35,079	19.0	37,206	22.8	31,903	18.0
Gold	32,019	17.4	18,780	11.5	40,582	22.9
Bananas	6,983	3.8	8,884	5.4	8,679	4.9
Cattle Hides	5,034	2.7	3,876	2.4	3,646	2.1
Platinum	2,665	1.5	1,651	1.0	1,126	0.6
Others	3,235	1.7	4,055	2.5	3,993	2.3
Total	184,187	100.0	163,227	100.0	177,054	100.0
Imports						
Semimanufactured						
Chemical products	7,575	4.5	7,253	4.6	8,870	4.8
Thread and fibers	6,030	3.6	4,729	3.0	5,806	3.2
Metal products	7,502	4.4	6,145	3.9	7,563	4.1
Others	1,927	1.1	1,751	1.0	1,802	1.0
Total	23,034	13.6	19,878	12.5	24,041	13.1
Manufactured						
Chemical products	13,162	7.8	12,138	7.6	14,302	7.8
Textiles and products	35,869	21.1	25,853	16.2	29,989	16.3
Metal manufactures	17,323	10.3	22,572	14.2	20,340	11.1
Machines and apparatus	29,064	17.1	29,202	18.3	32,146	17.5
Transport materials	12,202	7.2	11,596	7.3	16,335	8.9
Glass, pottery, cement and stone products	4,606	2.7	5,484	3.4	5,140	2.8
Paper and carton materials	4,902	2.9	5,129	3.2	4,626	2.5
Leather and rubber products	3,687	2.2	3,673	2.3	5,254	2.9
Others	12,644	7.4	11,827	7.5	13,196	7.2
Total	133,459	78.7	127,474	80.0	141,328	77.0
Agricultural						
Foods	4,715	2.8	4,507	2.8	6,930	3.8
Raw Materials	5,482	3.2	4,227	2.7	5,399	2.9
Total	10,197	6.0	8,734	5.5	12,329	6.7
Other imports	2,992	1.7	3,166	2.0	5,745	3.2
Total Imports	169,682	100.0	159,252	100.0	183,443	100.0

[2] Republica de Colombia, Contraloría General, Dirección Nacional de Estadística, *Anuario General de Estadística, 1939* (Bogotá, 1940), pp. 117, 120, and 137 (hereafter referred to only by title). Colombian figures on exports curiously do not include gold, which in this case should be considered as an export of a mineral product. The total in the above table includes gold exported.

from Germany and from other nations of the European continent. Leading Colombian products entering the channels of foreign trade are petroleum, gold, bananas, hides, and platinum, all subordinate to coffee. The following table indicates the importance of a few products in Colombia's export trade and the nature of consumption of foreign goods in Colombia.

The dependence of the Colombian economy upon the United States is evidenced by the distribution of foreign trade by countries. After the devaluation of the dollar in 1934, gold production in Colombia increased several fold—from an annual average of 158,235 fine ounces in 1928–31 to 480,615 fine ounces

TABLE II

Distribution of Foreign Trade of Colombia by Countries, 1937–1939[3]

	1937		1938		1939	
	Value (000) pesos	Per cent	Value (000) pesos	Per cent	Value (000) pesos	Per cent
Exports to						
United States*	118,089	64.1	94,949	58.2	118,398	66.9
Germany	18,746	10.2	21,074	12.9	12,989	7.3
Curacao	18,544	10.1	16,867	10.3	14,293	8.1
Canada	10,181	5.5	14,176	8.7	12,472	7.0
France	7,456	4.0	6,714	4.1	5,539	3.1
Others	11,171	6.1	9,447	5.8	13,363	7.6
Total	184,187	100.0	163,227	100.0	117,054	100.0
Imports from						
United States	78,952	46.5	79,445	49.9	99,124	54.0
Germany	22,468	13.2	27,766	17.4	23,437	12.8
United Kingdom	29,585	17.4	17,680	11.1	17,375	9.5
France	5,390	3.2	5,381	3.4	5,579	3.0
Canada	3,916	2.3	2,712	1.7	4,457	2.4
Czecho-Slovakia	3,110	1.8	3,278	2.1	2,319	1.3
Belgium, Luxembourg	4,793	2.8	3,383	2.1	3,849	2.1
Others	21,468	12.8	19,607	12.3	27,303	14.9
Total	169,682	100.0	159,252	100.0	183,443	100.0

* Includes gold.

per year in 1936–39.[4] While the total gold production in Colombia in the six years 1934–1939 was 2,595,000 fine ounces, the exports of gold to England and the United States amounted to 2,675,000 fine ounces. Of this amount all went to the United States except 94,900 fine ounces sent to England in 1934.[5]

As a balance wheel to the Colombian economy, our purchases of coffee have been even more important than those of gold. As shown in the preceding table,

[3] *Anuario General de Estadística, 1939*, pp. 117, 141, and 142.

[4] *Ibid.*, p. 55.

[5] *Ibid.*, p. 117.

the value of coffee exported by Colombia has constituted roughly half of the total of its exports. In the decade 1930–1939 we absorbed 82 per cent of the Colombian coffee marketed abroad. Upon the loss of European markets in 1940, 92 per cent of its coffee went to the United States.[6]

Of the external consumption of Colombian bananas in 1937, we purchased 72 per cent. We took in the same year 76 per cent of the platinum exported. Only in the exports of petroleum and cattle hides, among the leading commodities, did the market in the United States have little significance to Colombia.[7]

Under these circumstances one might hastily conclude that the European war has had little economic effect upon Colombia, since the American market and source of supplies has until recently remained intact. To the contrary, however, except for the measures described below—the coffee quota convention, the loans by the Export-Import Bank of the United States, and the increased output of gold, all sold to the United States—the disruption of the Colombian economy would already have threatened the country's political stability and brought hardship to many of her people.

II

Since Colombian economic life is based to so considerable an extent on the consumption of foreign merchandise, the problem imposed on the country by the war is related to the loss of markets and the cessation of imports from the blockaded zones. Not only does the diminution in value of exports create less purchasing power over foreign goods important both to domestic consumption and production, but the loss of markets for some Colombian products seriously affects employment in the industries concerned. The greater the importance attaching to those markets and to those commodities, the greater and more prolonged is the readjustment of the economy to the new situation.

Fortunately the crisis in the coffee industry has been surmounted at least temporarily. The downward trend of prices between September 11, 1939, and September 4, 1940, threatened heavy losses to many growers as well as the depreciation of the peso. In this time the price in New York on the basic Colombian type, Manizales, fell from $12\frac{3}{4}$ cents to $7\frac{1}{4}$ cents per pound, the lowest in history.[8] Although a reversal of the price trend set in after the latter date and gained momentum with the signing of the quota pact on November 28, 1940, coffee growers had not benefited proportionately with the rise of prices to 16 and 17 cents per pound in the summer of 1941 by reason of the fact that a major share of the Colombian quota had been filled by March and much of the rise occurred only after that time. Besides the loss of agricultural income from lower prices in 1940, the stability of the peso became uncertain with the weakening of the coffee market. Although Colombia exported to the United States in 1940

[6] Federación Nacional de Cafeteros de Colombia, *Boletín de Estadística*, July, 1941, pp. 475 and 479.

[7] United States Department of Commerce, Bureau of Foreign and Domestic Commerce, *Foreign Commerce Yearbook, 1938*, p. 232.

[8] Federación Nacional de Cafeteros, *Revista Cafetera de Colombia*, December, 1940, p. 2648.

some 985,000 bags of coffee more than in 1939, a gain of 31 per cent, the price recession more than offset the increase in physical volume with the result that exports were yielding a smaller supply of dollar exchange. Maintenance of the 1940 volume of coffee exports at the low prices of September would have reduced the annual return by \$6,732,000 under 1939,[9] a sum equal to approximately 6 per cent of her imports in the latter year.[10] This reduction in dollar exchange plus the loss of European exchange made urgent the cooperative agreement among the coffee-producing countries to control the offerings of the commodity on the New York market, which pact was adopted in due course.[11]

In addition to coffee, other exports, each with a value in excess of one million pesos, affected by the loss of the European markets were cattle hides and tobacco. Germany and Czecho-Slovakia, moreover, formerly purchased about a third of the bananas exported.[12] In the light of these factors it is not surprising that exports decreased from 177 million pesos in 1939 to 166 million in 1940, or 6 per cent, and that imports fell from 183 million pesos in 1939 to 148 million, or 19 per cent.[13] The downward trend of imports has been more pronounced, naturally enough, since the fall of Belgium, Holland, and France.[14]

Like the reflection of a person's image in a concave mirror, the preceding

[9] Federación Nacional de Cafeteros de Colombia, *Boletín de Estadística*, December, 1940, p. 353, and June, 1941, p. 474. If we take the price in early September, 1939, of 11½ cents, and in September, 1940, of 7½ cents, and calculate the weight in pounds at 2.2 pounds per kilogram, the following figures show approximately the result that might have been anticipated had no regulations been imposed on the marketing of the product.

1939: 3,150,000 bags, each of 60 kilos net, @ 11½ ¢ lb.	\$47,817,000
1940: 4,150,000 bags, each of 60 kilos net, @ 7½ ¢ lb.	41,085,000
Decrease in 1940	\$ 6,732,000

The rather marked inelasticity of demand for coffee with ensuing wide fluctuations in price in response to changes in demand and the complications to the readjustment of supply under voluntary measures suggests considerable similarity to the farm problem in the United States, with this exception: that the chief market for Colombian coffee producers is the foreign market and that to improve prices reliance upon international agreement and cooperation must be greater.

[10] *Revista del Banco de la República*, June, 1941, p. 247. Imports in 1939 were valued at 183 million pesos. This figure has been converted into dollars at the rate of 1.75 pesos per dollar, which has prevailed for several years.

[11] This need was recognized in Colombia by some governmental officials in 1939. Cf. Ministerio de Relaciones Exteriores, *Nuestra Revolución Económica* (Bogotá, 1933), p. 133. Section III by Guillermo Torres García, Chief of the Commercial Division in the Ministry of Foreign Relations, was completed on April 12, 1939.

In the report of the Minister of Finance in 1940, various alternatives were considered but in his judgment the only effective solution to the coffee problem was an international agreement. Cf. *Memoria de Hacienda, 1940* (Bogotá, 1940), pp. 27–31.

[12] Ministerio de Relaciones, Exteriores *op. cit.*, pp. 132–136.

[13] *Revista del Banco de la República*, July, 1941, p. 287.

[14] *Ibid.*, February, 1941, p. 60, and October, 1941, p. 400. In the first six months of 1941 imports declined 10 per cent under the figure for the corresponding period of 1940—from 82.2 million to 73.8 million pesos. But exports rose from 81.4 million to 88.7 million pesos, or 9 per cent, largely by reason of the better price of coffee and the increase of 15 million pesos in the value of coffee exported.

account, confined to international economic developments affecting Colombia, of itself conveys a gloomier picture of the material welfare of the nation than is warranted. Other indices in general produce a contrary effect and would lead one to conclude that the war's influence is rather negligible. Bank credit has continued to expand in response to governmental stimuli and to the growing requirements of domestic industry. Demand deposits of commercial banks have risen from 97 million pesos at the end of 1939 to 124 million on June 30, 1941. Savings deposits have increased from 15.6 millions to 19.3 millions in the same period.[15] Production of electric power, cement, sugar, silver, petroleum, and salt in 1940 exceeded that of 1939. The output of gold in 1940 reached the highest figure of recent Colombian history, 632,000 fine ounces, a rise of approximately 11 per cent over that of 1939.[16] The budget of the national government remains in balance. In 1939 and 1940 aggregate revenues, ordinary and extraordinary, yielded a small surplus over the total expenditures.[17] Indices of wages and of the cost of living in Bogotá have moved horizontally since 1939. The index of prices of 15 basic foods throughout Colombia fell from 142 in June, 1939, to 122 a year later (January, 1935, the base), and in the first six months of 1941 fluctuated between 116 and 120.[18]

Bank notes in circulation on June 30, 1939, totaled 57 million pesos. Two years later the figure had risen to 68.7 million pesos, or roughly 20 per cent.[19] Except for a short relapse in the summer of 1940, the prices of shares on the stock exchange of Bogotá have remained firm, and the volume of transactions in 1940 exceeded by 15 per cent that of 1939.[20] Nevertheless, only by prompt action of the Colombian government with the active support of the United States has Colombia escaped serious effects of the war.

III

The policies adopted to counteract the adverse influences of the war may be considered under two heads, monetary measures and those designed to increase domestic production. Both are interwoven to a certain extent. Included in the former are (1) new regulations controlling foreign exchange, (2) loans from the Export-Import Bank of the United States, (3) the international coffee convention, and (4) the expansion of credit facilities of various types within the country. The last particularly looks toward increased production. Under the second group are (1) governmental stimuli given to the production of those goods for which the climate and other resources of the nation are suited, especially those previously imported, and (2) the encouragement of production of gold for export to the United States.

[15] *Ibid.*, July, 1941, pp. 263 and 269.

[16] *Anuario General de Estadística, 1939*, p. 55. *Anales de Economía y Estadística*, May, 1941, p. 39 and Table I.

[17] *Anales de Economía y Estadística*, May, 1941, pp. 60, 63, and 65.

[18] *Revista del Banco de la República*, July, 1941, p. 274.

[19] *Ibid.*, p. 270.

[20] *Anales de Economía y Estadística*, May, 1941, Table II.

Among the more important new regulations governing dealings in foreign exchange is that by which under Resolution 87 of December 18, 1939, the Office of Exchange Control limits the sale of bills each week to a sum equal in amount to the foreign currency deposited in the Bank of the Republic in the preceding week. Petitions to acquire foreign exchange are considered in order, but preference is granted to those to pay for raw materials indispensable to Colombian industry, for machinery, drugs and medicines, and for other items which in the judgment of the Advisory Board are vital to the economic development of the country. Resolution 89 of April 8, 1940, classifies imports into four groups. Requests to pay for those in Class I receive preferential treatment. The Control Office determines periodically the amount of foreign money available for the other three classes. In general the commodities in Class I correspond to those considered essential to the economy, as listed above.[21] Dollars to pay for these goods are sold by the banks at the official rate of 1.755 pesos per dollar, plus the coffee tax of 5 centavos per dollar, mentioned below. The rate for goods in Class II is 1.795 pesos per dollar, that for Class III, 1.87 pesos and that for Class IV, 1.95 pesos, to which in each case the coffee tax is added.[22] Furthermore, only when the supply of foreign currency permits it may bills of exchange be obtained by importers of merchandise in the last three groups, and delays necessarily occur at times in such acquisitions.

Related both to exchange control and to the encouragement of domestic industry are those dispositions restricting the importation of and the issuance of licenses for exchange to pay for goods which Colombia itself could produce—for example, sugar, rice, wheat, and certain textiles.[23] The government, through the establishment of special credit facilities to be described and an educational campaign, has attempted to stimulate the production nationally of these commodities.

To support the Colombian economy and currency, the Export-Import Bank of the United States lent $10,000,000 in the spring of 1940 to the Bank of the Republic, amortizable over a period of eight years. The latter in turn granted to the government a loan of 17.5 million pesos, the equivalent of the dollar loan at official exchange rates, thus avoiding the deflationary influence from the sale

[21] Ricardo Montoya Pontón and Gustavo Orjuela Hidalgo, *Régimen Legal del Control de Cambios en Colombia. Suplemento* (Bogotá, 1940), pp. 36–62.

[22] *Revista del Banco de la República*, October, 1941, p. 372.

[23] *Ibid.*, pp. 80–82. Decree 1393 of July 18, 1940, limited import licenses for rice to five million kilos during the last half of that year, with successive reductions to 8 million kilos in 1941 and to 4 million in 1942. After January 1, 1943, with the prior approval of the Ministry of National Economy, the Office of Exchange Control can grant import licenses for rice only when a shortage arises by reason of an unfavorable crop. Similarly under Decree 1440 of the same date, importations of wheat are limited to 16 million kilos in the remaining months of 1940, to the same amount for the entire year 1941, and to 8 million in 1942. Importations of wheat after January 1, 1943, may be authorized only under the same conditions as those above for rice. In accordance with these limitations, eight flour mills received quotas for their imports of wheat under Resolution 96 of July 18, 1940, of the Office of Exchange Control (pp. 82–83).

of the dollars for pesos, and received from the government a guarantee of its debt to the Export-Import Bank. The government used its credit from the Bank to expand credit facilities for agriculture and industry, to construct highways and railroads, to buy dredging and other equipment, and to pay part of its debt to the Council of National Railways.[24] With the price of coffee in New York at a low ebb and the seasonal decline in the supplies of exchange from coffee exports, there is no question that the loan from the Export-Import Bank contributed to the maintenance of a stable external value of the peso at least temporarily.[25]

Perhaps most important to the peso and to the Colombian economy have been the international coffee quota pact and measures of the Colombian government to support its leading industry. Prior to the limitation of coffee exports to the United States, Colombia established a bounty of two pesos per bag of 70 kilos on coffee exported, effective for eight months beginning May 1, 1940. Upon the return of the price of Manizales coffee in the New York market to 10 cents per pound, payments would cease.[26] On July 18, 1940, by Decree 1156, the President made larger sums of credit available to the coffee-growers as well as to agriculturalists in general by the expansion of the capital of the Agricultural Credit Institute by 7,000,000 pesos and by authorizing it to lend with maturities up to six years.[27] Finally an agreement on August 31, 1940, among the two large mortgage banks, the Agricultural Credit Institute, and the central bank, provided for a reduction in the rate of discount charged by the latter to the Institute to 2 per cent on paper secured by coffee; authorized the Institute to issue special bonds at 2 per cent secured by coffee loans at 4 per cent, which bonds would be accepted by the Bank of the Republic; specified a reduction to 4 per cent in the rate of interest charged by the Institute on these loans; established a means by which coffee growers could refinance for five years 40 per cent of their current obligations to the Institute or to local credit societies; and

[24] *Memoria de Hacienda, 1940*, pp. 150–154. The allocation of funds was as follows:

	Pesos
To expand the capital of the Institute of Agricultural, Industrial and Mining Credit (*Caja de Credito Agrario, Industrial y Minero*)	7,000,000
To pay the government's share in the capital of the Institute for Industrial Promotion (*Instituto de Fomento Industrial*)	2,000,000
To create a rotating fund for direct aid to agriculture	500,000
To construct new highways	3,000,000
To continue work on the western trunk railroad	2,000,000
To pay part of the government's debt to the Council of National Railways, and to obtain dredging and other equipment	3,000,000
Total	17,500,000

[25] An additional loan of $12,000,000 from the same Bank was announced in the Bogotá newspapers in early August, 1941. The negotiations for this loan were completed upon its approval by the Colombian Congress in October. Cf. *The New York Times*, Oct. 5, 1941, I, 36, and *Revista del Banco de la República*, Oct., 1941, p. 371.

[26] Decree 831 of April 25, 1940. Cf. *Revista Cafetera de Colombia*, Dec., 1940, pp. 2635–2636.

[27] *Ibid.*, p. 2640.

reduced to 7 per cent for a period of two years the rate on long-term mortgage debts to the two mortgage banks.[28]

On November 22, 1940, under the terms of Decrees 2078, 2079, and 2080, and in anticipation of the coffee quota pact, the government established minimum prices on coffee and controls over its exportation. To finance its support of the industry, the first imposed a tax of 5 centavos per dollar on each draft sold by the Bank of the Republic or by other banks. The proceeds were to be credited to the National Coffee Fund, created by this law. Furthermore, all dollars received in payment for coffee in excess of the minimum prices had to be sold to the central bank at the rate of one peso per dollar. Since the Bank's regular buying rate for drafts was 1.75 pesos per dollar, this provision constituted a tax of 75 centavos per dollar upon that part of the receipts. The Bank must deliver the exchange so obtained to the Stabilization Fund, and the profits which the latter receives on its sale are credited also to the National Coffee Fund.[29] Decree 2080 imposed a third tax of 5 pesos per bag of 70 kilos upon exports of two types of coffee known as "pasillas" and "consumos" and authorized the coffee growers federation to buy those quantities in excess of the internal consumption. For the immediate financing requirements, Decree 2079 authorized the Treasury to issue coffee bonds bearing 3 per cent interest to the sum of 10,000,000 pesos, amortizable over 20 years. The revenue from the first two taxes above would apply toward the debt service of this issue.[30]

On November 28, 1940, the Pact of Coffee Quotas was signed in Washington. Under the terms of this agreement the coffee-producing nations of Latin America with the cooperation of the United States placed quotas upon the exportation

[28] *Ibid.*, pp. 2640–2641.

[29] Cf. Federación Nacional de Cafeteros de Colombia, *Boletín de Estadística*, December, 1940, pp. 271–273, Decree 2078. The minimum prices in United States currency set by the decree, per bag of 70 kilograms net weight or the equivalent are as follows, by type:

	F.O.B. PORT OF EMBARKATION (PESOS)	NEW YORK (CENTS PER POUND)
Medellín	14.05	10.08
Armenia	12.35	9.14
Manizales	12.38	9.00
Sevilla	12.15	9.00
Cumbre	11.45	8.56
Bogotá, Girardot, and Tolima	11.65	8.51
Bucaramanga and Cúcuta	13.15	9.51
Ocaña	11.95	8.71
Popayán	11.45	8.56

The New York prices are taken from *Memoria de Hacienda, 1941* (Bogotá, 1941), p. 323.

[30] *Ibid.*, pp. 273–275, Decree 2079 of 1940. With the resources placed in its hands and under the terms of a contract with the government, the Federation, as a quasi-official organization, has entered the domestic market to buy the surplus over the annual quota and to stabilize domestic prices. Cf. *Memoria de Hacienda, 1941*, pp. 322 and 324.

of coffee to our country as well as to other markets. The annual limit on Colombian shipments to the United States, 3,150,000 bags, approximated the figure for its exports to us in the crop year 1938–1939.[31] The total purchases of coffee by the United States from the American republics was fixed at 15,545,000 bags, each with a net weight of 60 kilos. This limit exceeded by 320,000 bags, or 2 per cent, our imports from these nations in the year ending June 30, 1939.[32] Perhaps by reason of the fact that Brazil and other producers were more adversely affected by the loss of the European markets, their treatment in the matter of quotas was more liberal than that of Colombia. Provision was made for the expansion or contraction of the quotas by the Inter-American Coffee Council, created under the accord, by not more than 5 per cent of the basic quotas any time nor more frequently than once every six months.[33] In the event of an imminent shortage of coffee in the United States, Article 8 empowered the Council to increase the quotas to the amount necessary. Similar authority was granted it to reduce the quotas when advisable. The accord is valid until October 1, 1943, but its extension may be arranged upon the recommendation of the Council at least one year before that date and upon acceptance by the signatory powers.[34]

The rise in price of Colombian coffee in the New York market since September, 1940, has contributed to a substantial increase in the dollar value of Colombian exports. From an average of 8.11 cents per pound of Manizales type in October, 1940, the price rose steadily to 15.28 cents in May, 1941. It more than doubled from October 1, 1940, to May 25, 1941, with quotations of 7.75 cents and 16 cents per pound respectively.[35] Nevertheless the full effect of the price trend upon both the United States and Colombia remains to be realized, since a much more than proportionate share of the quota was filled in the last quarter of 1940, and by May 31 with four months of the quota year remaining Colombia had exported 90 per cent of the annual allowance.[36]

[31] Article 1. The text of the agreement is in the *Boletín de Estadística* of the Federación Nacional de Cafeteros de Colombia, December, 1940, pp. 260–269. In 1938–1939, the export of Colombian coffee to the United States amounted to 3,146,000 bags (p. 333).

[32] *Ibid.*, p. 333.

[33] Article 3. On May 28, 1941, the Council increased the quotas by 5 per cent (Cf. *Revista Cafetera de Colombia*, June, 1941, p. 2797). In response to an expanded market, the result in part of a rise in employment and purchasing power, the Council on August 2 again raised the quotas 20 per cent effective August 11, for the remainder of the year ending September 30, 1941. By these two changes imports into the United States authorized for 1940–1941 exceeded the basic quotas by 700,000 bags. *Revista del Banco de la República*, August, 1941, p. 293.

[34] Article 24.

[35] Federación Nacional de Cafeteros de Colombia, *Boletín de Estadística*, July, 1941, pp. 398 and 413.

[36] *Ibid.*, pp. 412 and 474. In the last three months of 1940 Colombian exports of coffee to the United States aggregated 1,375,000 bags, nearly half of the quota, at prices which were still comparatively low. Prices receded slightly during the summer, following the increase in the quotas. For Medellín type, the monthly average price in New York was 16.14 cents per pound and 16.12 cents in June and July, 1941, respectively. Cf. *Revista del Banco de la República*, Aug., 1941, p. 309.

Mention has already been made of some of the government's efforts to expand credit facilities to industry and agriculture. The inadequacy of such facilities has been particularly evident in the field of intermediate and long-term agricultural loans and in the scarcity of financial resources for new industries.[37] In March, 1939, the state created a National Cattle Fund, to which it contributed 1,000,000 pesos of capital from the profits of the monetary devaluation of 1938. In June, 1940, this fund was incorporated within a new division of the Institute for Agricultural, Industrial, and Mining Credit. The primary purpose of the new section was to increase the resources for loans to agriculture on intermediate and long term. As already noted, following the loan by the Export-Import Bank to the Colombian central bank, the government used 7,000,000 pesos of its credit from the latter to pay for its share in the capital of the new section and to increase the capital of the Institute's other divisions. The latter's credit resources were expanded further by the authorization to issue secured bonds with maturities of six years, which could be purchased by savings banks without limit and by commercial banks and insurance companies subject to certain restrictions.[38] To avoid unproductive loans, Decree 1156 specified the nature of the contracts in which the agricultural section of the Institute might engage.[39] Decree 1147 of 1940 provided credit by the Institute for small mining operations to permit economic exploitation. By these several decrees the government sought to divert credit from the short-term market represented largely by the commercial banks into intermediate and long-term.

To augment the financial resources for the development of domestic industry the government created the Institute for Industrial Promotion (*Instituto de Fomento Industrial*) on June 18, 1940. It subscribed to shares of the latter to the extent of 2,000,000 pesos, using part of the credit from the Bank of the Republic in this manner. The Central Mortgage Bank was authorized to subscribe to shares to the amount of 1,000,000 pesos, and subscription was open also to the commercial banks, to other governmental agencies, and to the general public. The attention of this new organization focuses upon the expansion of those industries producing basic and semiprocessed goods. It may buy shares in these businesses up to 51 per cent of their capital and may sell them later when this can be done with no ill effect. It may guarantee the notes or bonds of those firms in which it is a part owner, and it is permitted to borrow funds inside or outside of Colombia. In its first year the Institute has given substantial help in the development of a half dozen enterprises.[40]

[37] *Memoria de Hacienda, 1940*, p. 78.

[38] *Ibid.*, pp. 81, 85 and 86. Decrees 1155 and 1156 of June 18, 1940. Purchases by commercial banks were limited to those maturing within 18 months, and these bonds were rediscountable at the Bank of the Republic.

[39] *Ibid.*, pp. 90–97. The Institute could make loans to finance the purchase of small rural properties and the preparation of new lands for cultivation, to effect permanent improvements, to buy and ship breeding cattle, to acquire machinery and irrigation equipment, and to refinance short-term credits when warranted.

[40] *Ibid.*, pp. 81 and 88. The annual report of the Institute issued in the summer of 1941 lists several enterprises in which it has had an interest, among which are sugar and milk producers.

For ten years the government through the Institute for Agricultural, Industrial, and Mining Credit and the Bank of the Republic has encouraged the production of gold. In the early thirties before the devaluation of the gold peso, the Bank raised its buying price of gold and varied the premium in accord with the fluctuations in the rate of exchange on dollars. The action of the United States in devaluing its currency in 1934 and in maintaining continuous purchases of the metal at the new price of $35 per ounce, however, probably played the main role in the expansion of Colombian gold production. From 137,000 fine ounces in 1929, output rose to 300,000 in 1933, and reached the all-time peak of 632,000 ounces in 1940.[41] As indicated earlier, practically the entire production of the last decade has been exported to the United States. Representing a substantial percentage of the value of Colombian exports, it has contributed in no small measure to the maintenance of the stability of the peso and of the standard of living in recent years in Colombia.

IV

Of the above means employed to offset in so far as possible the adverse effects of the war upon the Colombian economy, those aimed at promoting domestic production have probably had the least immediate significance, although in the long run they may prove to be the more far-reaching. Food imports constitute a very small part of the total. Hence the efforts to establish self-sufficiency of wheat, rice, sugar, and fruits would not reduce appreciably the demand for foreign exchange and would scarcely permit the maintenance of the prewar volume of other imports. Nor can the problem of increasing national production be solved by the expansion of internal credit. This problem of expanding output has two major facets requiring long-range planning and effort and heavy capital investment: first, that of providing better education for the masses to create the basis for the development of an intelligent management and labor force capable of increasing productivity through the improvement, proper maintenance, and employment of capital equipment; secondly, the extension and improvement of the transportation system, particularly as it applies to railroads and highways.[42]

The most effective of the measures adopted have been the coffee quota pact, the loans of the Export-Import Bank, continued unlimited purchases of gold by the United States, and our efforts to date to maintain the flow of goods for consumption and for production not only to Colombia but to all Latin America.[43] Although it is true that the population of Colombia is largely agrarian and that the masses will not be deprived of costly American and other foreign merchandise

[41] *Anuario General de Estadística, 1939*, p. 55, and *Revista del Banco de la República*, Aug., 1941, p. 308.

[42] At the present time, Bogotá and Medellín, the two largest cities of the country, have no rail connections with the Pacific or Caribbean.

[43] The establishment of priorities on zinc, mercury, and cyanides has threatened to close the gold mines of Colombia, which require these materials for the refining of the ore. Since the attack of December 7 on Pearl Harbor, dislocations in the Colombian economy are certain.

by the cessation of this flow, there is little doubt that an interruption in the supply of materials and machines would have had serious effects on that manufacturing which already exists, that agricultural labor would have suffered from the continuation of low coffee prices prevailing before the signing of the coffee quota pact, that real incomes would have declined but for the efforts to maintain purchasing power and the volume of imports, and that the friendly Santos regime would have encountered greater internal unrest if it had failed to provide a relatively high degree of stability in the economic system. Economically it has been to our interest to aid the nations to the south in their efforts to counter the effect of the loss of European markets and to avert the collapse of prices of their products. Politically it has appeared desirable to retain the friendship of these governments and peoples by implementing the "Good Neighbor Policy" with economic assistance, especially through the period of emergency. In any event our government has wisely followed the policy of assisting these nations without attempting to balance economic gains against the costs.

THE POST-WAR INTERNATIONAL ECONOMIC ORDER

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Any analysis of the international economic order of the future must necessarily be preluded by an examination of past and present international economic relations. Two facts facilitate examination of the past: first, the nation state is a comparatively recent historical phenomenon; and second, only with the centuries immediately past have science and technology made international economic relations possible or profitable on any considerable scale.

The interplay of religious, social, political, economic, and technological forces which led to the breakdown of medieval localism and the evolution of national states is well known. International relations of persons and groups were gradually regularized and conflicts minimized by the growth of national consciousness and allegiance, positive and sentimental, to national language, customs, institutions, ideals, and aspirations. Within the nation, individuals and groups pooled their sovereign rights and entrusted them to the state; but where relations between states were concerned, there was no obeisance to a power which might ascertain and administer the will of sovereign nations. There the problem of international economic relations began in the past; there it now rests; there it will be in the future.

The area of conflict between states enlarged as the world economic structure became more complex. Short of two alternatives, force was the accepted means of settling international disputes. The first of these alternatives was recourse to certain Christian principles inherited from the Middle Ages by the peoples of western Europe, justice, mercy, and peace, backed up by mutual contract whose validity rested again on the moral principles of faith and truth grounded upon an essentially religious sanction. The second alternative was both a product and a cause of technological changes taking place: namely, the recognition by nations of their economic interdependency as the world became more complex and their willingness to resign force in favor of cooperation toward mutually beneficial ends. The economic and political philosophers of the late 18th and early 19th centuries, saturated with confidence in natural law, rational economic man, enlightened self-interest, and the doctrine of harmony of interests prophesied an international milennium with free trade as the universal solvent.

Science unleashed the forces of technological change and successively, with the commercial, industrial, and mechanical revolutions, nations were brought into closer and closer contact. The technology of travel, transport, and communication so reduced these three components of economic distance that the world shrank to a fraction of its former size. Technology increased the effective size of production units and the need for larger markets grew; technology enlarged the variety of usable resources and nations found that access to distant raw materials became increasingly important. Natural barriers to population growth were overcome and standards of living rose. The same technological

changes further hastened the awakening and consolidation of new national states in the 19th century, Germany, Italy, and Japan among others. Unfortunately, these latecomers arrived after certain early comers had indulged in their theories of enlightened self interest.

Nationalism took on new meaning with the awakening of the masses. Their rising standard of living, their organization into representative groups, and their influence on government policy tended to accentuate a trend toward economic nationalism. It was these masses who least of all comprehended the doctrine of harmony of interests and who felt secure only when their national flag guarded the markets and sources of raw materials so essential to their better life.

So long as there was space for expansion, conflicts of national interests were minimized; but the space available diminished absolutely and relatively: absolutely in that more and more of the sparsely settled areas of the world were claimed in the names of organized national states; relatively in that these spaces became more sought after as new techniques of production developed. Then too, many areas once available for expansion emerged as new national states. Throughout the 19th century safety valves such as relatively low tariff barriers, relatively free immigration opportunities, and reasonably facile international monetary relations helped to minimize conflict. Economic nationalism soon sealed these safety valves.

Imperialistic conflicts of the late 19th century and the first World War all revealed the limited effectiveness of Christian morality and the doctrine of harmony of interests as shock absorbers for conflicting national ambitions. This does not imply that there were no mutual gains from international economic intercourse or that all international economic relations led to conflict. The rising standard of living of a rapidly increasing world population and the volume of world trade and investment were ample testimonies of the benefits derived, even though those benefits were not shared equally. But the fact remained that the benefits derived were not sufficient to prevent nations from attempting to secure exclusive economic securities, or from defending their sovereign rights by force.

The first World War, short of settling any of the basic economic problems which may have contributed to it, provoked a multitude of new disturbances to international economic relations. National newcomers entered the field to assume the industrial arts which Europe abandoned to wage war. For active participants, the war meant a disruption of normal economic patterns internally and externally. Established debtor-creditor relations were reversed, normal avenues of commerce were violently changed, and the financial mechanisms which had lubricated international relations were deranged. The peace settlement only aggravated the problem of nationalism and economic nationalism by the creation of new states, each with its own ambition to economic security. The victors practiced policies which increased economic nationalism at home and accentuated it abroad. Old safety valves such as unrestricted immigration opportunities disappeared and the channels of trade became increasingly cluttered with restrictions. Three opportunities to bring order out of impending

international economic chaos were bungled—at Versailles in 1919, at Geneva in 1927, at London in 1933.

With the depression beginning in 1929 nations threw to the winds any endeavor to cooperate. Each specialized in trying to make the other bear the burden of depression. The masses demanded security. National economic planning and intervention seemed the means toward that security, and international economic relations were sacrificed to policies of national isolation and insulation. Technology had made nations interdependent, but the frontiers of national sovereignty did not always coincide with the frontiers of economic activity. This meant that national economic security might be jeopardized by the actions of other nations. Two means for acquiring economic security developed. The first involved the reduction of dependency on international economic relations; the second involved the extension of political sovereignty through conquest. The first was autarky; the second militant nationalism—imperialism. They were mutually complementary as Germany was able to demonstrate.

II

Technological change has been one of the most significant factors leading to the present impasse in international economic relations. Although, on the one hand, technology has reduced the components of economic distance, has enlarged the size of efficient productive units, and has made possible and desirable the utilization of raw materials that are scattered throughout the world, on the other it has awakened the masses, helped to fuse them into national units, and, because of the nature of technological change, imbued them with a security complex which leads to an aggravation of economic nationalism. Economic nationalism in turn, in the absence of moral or rational rules for the reconciliation of national conflicts, has tended to pit national economies against one another in the search for security.

There is a tendency to oversimplify the cause of the present impasse. It would be convenient if the cause could be put in terms of devils and dictators. Then salvation could be gained by disposing of the devil. However, technological changes, mass security complexes, and economic nationalism are forces which are neither single nor simple; and they are made none the less complex by their capacity for reciprocal causation.

The same forces which have conditioned international economic relations in the past still function. Whether or not they will lead to impasse after impasse depends upon whether they are generally recognized, modified, and harnessed. Certainly our foremost post-war economic objective is to control these forces. Nothing is more imperative if mankind is to realize the full benefits of the tools of science and technology which have been placed at its disposition.

Before any suggestions are made regarding future international economic relations, it is important that we take note of the following significant changes, now taking place, which will have important bearing on the post-war world.

(1) Just as during the first World War, the preoccupation of the industrial nations of Europe has resulted in the stimulation of technological change in

areas formerly dependent upon Europe for manufactured goods. The impossibility of finding outlets for raw materials and foodstuffs has been an added incentive to industrialization in South America and Mexico as has been the special encouragement given by the United States in an attempt to wean these countries away from Europe. In China a national unit is being fused and industrialized under the impact of aggression. Within the countries at war there is a diversion of production to military purposes. This means a problem of economic demobilization sometime in the future. Autarky and war have led to the invention of certain substitute industries some of which, witness synthetic rubber and Nylon, may revolutionize the nature of international trade and international dependency of certain nations. Contemporary random and unrelated monetary policies of various countries foreshadow grave problems of readjustment. The bases for harmonious trade relations which existed in the year 1913 will have radically changed.

(2) In the interest of mutual preservation and temporary advantage, and because of conquest, larger economic blocs or regions are developing. What Germany has done by conquest in Europe, and what Japan has done by conquest in China, the United States is attempting peacefully, and with mutual agreement, in the Western Hemisphere. Perhaps these experiments will reveal whether economic nationalism is best erased by conquest, or by mutual feas of conquest. The permanence of these blocs and the degree of intra-bloc harmony will decidedly affect the future trends of international economic relations.

(3) International economic relations have long been conditioned by certain sentimental and occasionally irrational international allegiances. The changes in these allegiances which are taking place now will undoubtedly condition the future. Witness for example the change in attitude toward France, Finland, and Russia; witness also the realization that a continent lies to the South of the Panama Canal. It is not inconceivable that certain of the countries conquered by Germany may, if the war continues too long, reverse their ancient affections.

(4) In all countries the past depression has occasioned, or the war necessitated, a diminution of faith in the adequacy of ordinary market mechanisms as a means of effecting general welfare and security. Countries have differed only in the degree to which private direction has been supplemented or replaced by government planning and public operations. Stimulation of enterprise and the maintenance of employment and prices through public works, controlled agriculture, and all the rest were as much a part of government policy in the United States as elsewhere. It will be interesting to note the extent to which we maintain the traditional terms Americanism, Democracy, and Liberalism to describe certain processes and institutions which have been changing under the impact of technology and because of the expressed desire of vocal masses for economic security. The mental transition from the desire for liberty to the desire for security is extremely subtle, but very real. Nationalization of economic effort and economic planning may mean the end of private, multilateral trading transactions which one time characterized the economic relations of nations. This

is feared particularly in case of a German victory, but it may come no matter what the outcome of the present war because the essential problems between nations that will have to be solved will require a more comprehensive grasp of various national needs than individual traders may have. Furthermore, what is happening, and what will happen to that religious faith in gold?

It is difficult to put into general terms the multitude of differences which are going to have to be reconciled when and if international economic relations on a world wide scale are resumed. Changes have taken place in the hierarchy of industrialization, sentimental allegiances have shifted, profound economic and financial changes have taken place within countries, and confidence in private direction of the economy through the market has been shaken. Such changes as these have led, and could again lead, to a greater accentuation of economic nationalism.

III

Any consideration of the post-war international economic order which does not make allowance for the impact of technology upon economic nationalism traced above would be unrealistic and would overlook the basic problem. The problem of restoring harmonious international economic relations is that of minimizing economic nationalism. Not until economic nationalism gives way to economic internationalism or a world economy can the full powers of science and technology be harnessed and the optimum utilization of world human and natural resources effected. Among many current suggestions for the realization of this end are proposals for the restoration of international laissez faire, for the reestablishment of the League of Nations, for a European federation, for a federation of democracies, for regional federations preparatory to world federation, and for an international labour organization. Obviously, it is not possible to give here a detailed evaluation of any one of these suggestions. It is appropriate, however, that certain general comments be made about certain of these proposals.

International laissez faire was characterized by multilateral private trading transactions. Various limitations of international laissez faire are implicit in comments made above regarding past and present international economic relations. It was assumed throughout the 19th century that the restraining power of international morality and the recognition of harmony of interests would lead nations to cooperate peacefully. International laissez faire and free trade were to be universal solvents for problems of world resource proportioning. However, this calculus did not make due allowance for the fact that nationalism and technological change would not occur at an equal pace in all parts of the world. Nor did it make allowance for the peculiar security complexes that would develop as the masses became vocal. So long as there were normal outlets for latecomers, no explosions occurred; but when imperfect competition developed and the "haves" crystallized their advantages by rigid immigration restrictions and tighter controls of markets and raw materials, the situation changed.

For the moment Germany has accomplished a nominal consolidation of the

whole area which might be affected by current proposals for a European federation. It is to be hoped that Anglo-American efforts to effect a federation in the same area might be crowned with more whole-hearted cooperation than most of the participating states seem to be rendering Germany. Important as a European federation might be, it would still leave many essential world economic problems unsolved. Accordingly, regional federations have been suggested as steps to world federation.

Such regionalism as will lead to a permanent and satisfactory solution of the problems of economic nationalism must preview on a small scale the solution of almost the same problems that will arise when an attempt is made to set up an international economic organization on a world scale. There are current pleas for Western Hemisphere solidarity, and for consolidation of the Western Hemisphere with Great Britain and the remaining dominions and colonies. Even within these areas there is ample room for conflicts of economic nationalism. There are such problems as the reconciliation of British and American investments in oil lands in Mexico, in Bolivian tin, in Porto Rican sugar, with the interests of the native populations. There is the problem of reconciling competing national industries. There is the problem of how to establish such monetary relations between all members of the bloc that no country is unduly penalized. There is the ever present immigration problem. To what extent shall Mexicans have the right to seek unlimited employment opportunities in the United States and Canada? To what extent shall East Indians have the right to move to other English colonies and dominions? All of the major problems are present: resource utilization and the control of resources; monetary policy; business cycle control policy; reconciliation of competing industries; leveling of differences in the standards of living.

Do the essential problems just posed differ any from those with which Germany, Italy, and Japan have confronted the British Empire and the United States? To the extent that they have posed these questions while waving a big stick, yes. However, is it not within the realm of possibility that, with the present rapidity of technological change, the Germanies, Italies, and Japans of the future may be among the nations which lie to the South or among the English dominions and colonies? Could not China or India be the Japan of tomorrow? The algebra of regional federation might be good foundation for the differential calculus that is going to be involved in world federation.

Since regionalism represents one of the few efforts toward organization that may be undertaken at the present time, it is currently a major outlet for the frustrated ambitions of those who yearn for an international economic or political organization. Principal dangers lie in the temptation to skimp solution of basic problems and use regionalism as a temporary form of military alliance with no real settlement of conflicting national economic ambitions.

Despite the fact that the depression affected economic nationalism in such a way that nations minimized their contracts with one another, and maximized their conflicts, it conditioned the masses within most nations to the necessity of government economic planning. There is this current faith, at least, as a point

of reconciliation. Harmonious international economic relations can be realized only if there is a minimum degree of planning of national efforts which might otherwise conflict. It is not possible to sketch the whole blueprint of a future international economic organization or suggest the way in which this organization ought to approach all major problems. However, it is important to note in conclusion three facts, the universal realization and acceptance of which would seem to be requisite to the success of any attempted organization.

First, a successful international economic or political organization would presuppose the surrender of such a degree of national sovereignty to that organization as would enable it to plan effectively. In Biblical parlance, the perfect solution to the problem would be such a mutual surrender of sovereignty and recognition of mutual interest in peace that the lion and the lambs would lie down side by side. The other extreme of this, and an equally permanent way of resolving the conflicts of national sovereignty is to have the lion and the lambs lie down together with the lambs inside the lion. Let it be emphasized that the above lion has no political symbolism; he is allegorical, not Anglo-Saxon.

Second, power goes far to create morality convenient to itself and coercion is a fruitful source of consent. Hence, there is often a confusion of the morality derived from power with morality which will be a permanent and unchanging stimulus to harmonious international economic relations. This constant morality would be evidenced in the willingness of nations whose standards of living are high to share their blessings with less fortunate nations in the world. This is the very thing they would have to do if a federation were to be successful. This does not necessarily mean that in the long run, all nations might not benefit from more harmonious and more cooperative relations occasioned by the sacrifice.

Last, but not least: the impact of technology upon various parts of the world will be forever effecting changes in the development of nations. Harmonious relations, peace between these nations, is not a static concept. A realization of the inevitable onward surge of technological change would help to foster the attitude that makes constructive and necessary change possible in advance of the time when it may be attempted under duress. Peace under these circumstances would not simply mean maintenance of the status quo; it would become a supreme example of balance in motion.

THE DEVELOPMENT OF CONSUMER ECONOMICS

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Economic science in its earlier days, like all Gaul, was divided by many writers into three parts: production, distribution, and consumption. Production was concerned with the growing, extraction, and fabrication of goods. Distribution dealt with the diffusion of the joint product of industry and with the financing and physical movements of goods from producers to consumers. Consumption had to do with the use of goods. But just as soon as these writers had so divided their field of knowledge they proceeded either to forget consumption or to assume that it required no analysis. Other earlier as well as some later writers more or less ignored consumption altogether or they simply held that consumption was not an economic act at all.

I

Adam Smith, back to whom almost every economist feels constrained to go, gave consumption a preeminent place in the system of economics which he developed. "Consumption," wrote he, "is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it. But in the mercantile system," which he was at the time attacking, "the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce."[1] But with that statement concerning the importance of consumption Adam Smith stopped; he went no further with his analysis of the relationship of consumption to production.

Consumption, however, as Smith pointed out in the case of the mercantile system, may be approached from the opposite point of view.[2] It may be

[1] *An Enquiry into the Nature and Causes of the Wealth of Nations*, Vol. II, Bk. IV, Chap. VIII, Sixth Edition, p. 515.

[2] Raymond T. Bye has admirably stated the significance of both points of view. In the following language he indicates how each may be useful in economic analysis:

> From the standpoint of applied science, it may be better to regard consumption as a means to the end of production. If we are seeking to control consumption in the interest of the general welfare we must look at it from a philosophical or moral point of view. Perhaps men *ought* to work for the work's sake, and to consume only in ways that will enable them to work most effectively. In an ideal society perhaps this might be realized and if we are seeking some criterion to test the economy or waste in our present consuming habits it is a rule which we may apply.
>
> But from the standpoint of pure science we shall get farther toward an understanding of economic processes as they are if we look upon consumption as the end to which production is the means.—Raymond T. Bye, *The Principles of Economics*, Third Edition, p. 456.

thought of as the beginning, not the end, of production. It may be argued that production affords human beings a natural outlet for their energies, that all creative activity has a high place in human economy and that in the struggle for existence "those individuals and those peoples will be strongest and most likely to survive whose production is the most efficient." If this method of approach is accepted, production becomes the primary object of economic life and consumption is merely the means whereby production is made operative. Hence, producers must be "well fed, well clothed and well housed." Likewise, they must have rest, relaxation and amusement in order to function in the most effective way. In other words, individuals do not produce to consume; they consume to produce. The efficiency of consumption is measured, if it may be measured at all, not by units of satisfaction or by inner feelings of completeness but by the efficiency of production. When consumer behavior begets effective producer behavior, consumer behavior is proper. When it does not beget effective producer behavior, it is improper.

II

But whether consumption is regarded as the end to which production is the means or as the means to which production is the end, the majority of the writers of earlier texts did not devote very much attention to consumption. Of 44 leading writers from Adam Smith to 1920, studied by Professor Boucke, only 19 gave space to consumption.[3] Bastiat, the French economist of the nineteenth century, gave consumption first place in order of treatment and Pareto of Italy in his works gave it second place. Of the other 17 economists who considered consumption as a division of economics, four accorded it third place; three, fourth place; four, fifth place; five, sixth place; and one, eighth place. Considerably more than a majority of the economists studied by Boucke ignored consumption altogether or merely referred to it in passing.

Most of the early economists concerned themselves primarily with problems of production. Every nation, until the latter part of the nineteenth century, was confronted with scarcity. The cry on every hand was for more and more goods of all kinds. While industrial changes had occurred or were occurring and while the evolution of the factory system was on its way, the masses of the people dwelt in the midst of poverty. Food, clothes, and shelter in adequate amounts were unavailable. The new techniques of manufacture which were beginning to emerge were crude and inefficient. Wars recurring at regular intervals prevented the accumulations of reserves and the nations engaged therein were kept in a state of impoverishment. The chief interest of the people everywhere as a matter of course was to secure a larger supply of goods and services, to increase their wealth, to provide themselves with more and more of the good things of life. As a result of these conditions, it was but natural that economists as well as statesmen should have reflected the environment in which they found themselves and should have devoted their time and

[3] O. Fred Boucke, *The Development of Economics*, pp. 152-153.

energy, not to considerations of consumption, but almost exclusively to ways and means of increasing production.

Even Adam Smith himself in his analysis of the "wealth of nations" emphasized the importance of increasing production. He pointed out that the wealth as well as the power of a nation depended upon the productivity and the skill of its people. If England was to enjoy greater individual wealth and higher standards of living it had to increase its supply of goods and services. While technical improvements which had gradually appeared had speeded up the creation of commodities, the population also had increased at about the same pace. Hence, the only hope of economic progress lay in keeping production "one or two jumps ahead" of population growth. Naturally the economists who immediately succeeded Smith were acquainted with this situation and proceeded to place production foremost in their writings. It was not until the latter part of the nineteenth century that the supply of goods began to catch up with demand, that people began to feel some freedom from the pressure of want and that economists here and there began to devote some attention to consumption.

III

The first economist of any importance to stress consumption was J. B. Say.[4] He devoted an entire section in his *Traité d'Economie Politique* to consumption and its relationship to production. Other French economists of the nineteenth century followed his lead and gave high rank to consumption in their writings. F. Bastiat gave it first place in his *Economic Harmonies* which was published in 1850. M. Charles Gide in his *Principles of Political Economy*, which was published in 1884 and which had run through more than two score editions by 1925, also gave it high rank.

Among British writers, Lord Lauderdale in his *Enquiry into the Nature and Origin of Wealth* in 1804 gave the earliest treatment to consumption through his emphasis on demand, but due to the early date at which he wrote he did not have very much influence on the development of economic thought. Daniel Raymond in 1820 and J. R. McCulloch in 1828 each attempted to direct attention to the importance of consumption but they likewise had little influence. The first English writer to emphasize the subject and to make a real impression was William Stanley Jevons whose first book appeared in 1871. Jevons, in his treatment of consumption, developed the concepts of utility and of diminishing and marginal utility; he analyzed wants and tried to work out a law of succession of wants; he presented many other original views and was the first to evolve a theory of value and price based on demand. Many of his conclusions are afforded a prominent place in the economic texts of the present.

While economists on the continent, like their contemporaries in England, emphasized production primarily, Roscher in 1854 in his *System of Political*

[4] Paul H. Nystrom, *Economic Principles of Consumption*, pp. 29–33. Nystrom presents an interesting statement four and a half pages in length concerning the emphasis which the nineteenth century writers placed upon consumption.

Economy devoted several sections to consumption. He showed the relationship of production to consumption and analyzed the principles as well as the forms of consumption. Menger, Böhm-Bawerk and later Von Wieser, all of the Austrian school, emphasized consumption. These writers in particular developed the economics of price based on demand and consumption. They influenced later European and American writers in their acceptance of the laws of diminishing and marginal utility as a basis for the theory of exchange value and price.

IV

Simon Patten in 1889 in his *Consumption of Wealth* was the first American economist to emphasize consumption. Richard T. Ely and Henry R. Seager were other American writers who early recognized the importance of consumption. Ely, in his *Outlines of Economics*, originally published in 1893, defines economics as "the social science which treats of the phenomena arising from wealth-getting and wealth-using activities of men."[5] He then divides economic science into four fields: production, consumption, exchange, and distribution. "*Production*," he says, "means the creation of new or additional utilities, goods, or 'values' . . . and includes the processes of transport and marketing as well as those of agriculture, manufacture, and mining. *Consumption* means the use or using up of utilities. . . . *Exchange* means the voluntary transfer of wealth or the rendering of personal service in return for other wealth, money, or its equivalent. . . . *Distribution* is used in a special technical sense, having no connection with physical transport and marketing, but meaning the division of the product of industry among the various *factors of production*."[6]

Seager brought out his *Introduction to Economics* in 1904. In 1913, he changed the title to *Principles of Economics*. He indicated at the very beginning of his book that economics was concerned with man's wants on the one hand and with goods and services to gratify these wants on the other. He devoted one whole chapter directly to the consumption of wealth.[7] In this chapter, he analyzed the characteristics of wants, the law of diminishing utility, the nature of demand and what he called the laws of consumption. He also devoted one chapter to "value in use" in which he presented the concepts of marginal utility, marginal cost and other matters bearing directly or indirectly on consumption.[8]

V

Later American economists, with two or three notable exceptions, have increasingly concerned themselves with consumption. During the past decade and a half, a multitude of general economic texts have appeared. It is impossible, due to the limitations of space, to examine all of these texts. Con-

[5] Richard T. Ely and Ralph H. Hess, *Outlines of Economics*, Sixth Edition, p. 4.

[6] *Ibid.*, p. 95.

[7] Henry Rogers Seager, *Principles of Economics*, Second Edition, pp. 70–88. The last edition of this book was published in 1923.

[8] *Ibid.*, pp. 89–121.

sideration will be given only to a representative few which are in use as college texts at present. An analysis of these texts will indicate the extent to which certain current writers of high standing have discovered consumers and have elevated them to a place worthy of separate treatment in their printed output.

The first of these texts is Fairchild, Furniss and Buck's *Elementary Economics* in two volumes. In these volumes no separate space or chapter is devoted to consumption. A study of the index reveals that only four very brief references were made to it. The first of these references called attention to the growth of consuming power during the Industrial Revolution;[9] the second, to the regulation of consumption by price;[10] the third, to borrowings for consumption;[11] and fourth, to taxes which are levied on consumers.[12] Of course there is the usual treatment of demand and demand schedules. While the authors define economics "as the science of man's activities devoted to obtaining the material means for the satisfaction of his wants,"[13] their work is concerned with the former rather than the latter part of their definition. In the last edition, Part II, which deals with forces determining price, has one chapter on price and the consumer.[14] Aside from this chapter the writers evidently do not regard consumption as of such consequence as to warrant serious consideration in the science of economics.

F. W. Taussig's *Principles of Economics* in two volumes is a work which has been in use a long time as a college text. In later as well as in earlier editions, no special attention is devoted to consumption. Aside from a few sentences or so given over to consumers' capital, the meaning of consumers' purchasing power for crises and consumers' surplus,[15] no other references are made to consumption. Economics, the author apparently concludes, is concerned altogether with production. "The problems that arise in economics," says he, "are mainly concerned with the relation between exertion and the remuneration which induces the exertion."[16]

Of 46 chapters in *Economic Behavior* by Willard E. Atkins and others which appeared in two volumes in 1931 and which contained 1,163 pages, five chapters, or about one-eleventh of the book, were devoted to the role of consumers.[17] In the revised, one-volume edition of 1939, the number of pages was reduced to 923, the total number of chapters to 41 and the number of chapters on consumption to two. But both editions recognized the growing influence of consumption. In the revised edition, the authors even suggest that consumption may effect a basic reorientation in our entire economic philosophy. "In recent years," they remark, "discussions of consumer problems and consumer dis-

[9] Vol. I, p. 69.
[10] *Ibid.*, Vol. I, p. 160.
[11] *Ibid.*, Vol. I, pp. 177, 180, 182.
[12] *Ibid.*, Vol. II, p. 372.
[13] *Ibid.*, Vol. II, p. 8.
[14] Fourth Edition, Vol. I, pp. 127–152.
[15] Fourth Edition, Vol. II, pp. 5, 40, and 43 and Vol. I, p. 114.
[16] *Ibid.*, Vol. I, p. 14.
[17] Vol. II, pp. 3–101.

content have come to occupy an increasingly important place in economic literature. The emerging movement seems not so much to point toward the growth of a small, compact pressure group as to suggest that there may be a generally increasing demand for a fairly basic reorientation of our entire economic philosophy."[18]

Walter E. Spahr and others in their *Economic Principles and Problems* have assigned one chapter of 38 pages to consumption. That they were acquainted with consumers and that consumers were entitled to a place in their system of economic thought is indicated by the following language:

> The sequence of events since 1914 has placed problems of consumption in a more prominent position in current economic thinking. The marked change in the quantity and quality of the things people buy and use in this country has directed attention to the so-called neglected field of consumption and has revived in new raiment traditional theories of economic progress. Indicative of this interest is the recent appearance of books dealing exclusively with consumption, the increase in the number of scientific and popular articles on the subject, the growth of university courses in the field, and the active interest in it at business gatherings. In a similar manner, and in harmony with current tendencies, students of value and price theory, merchandising, and the social sciences in general are interested in the economics of consumption. These current tendencies are a sympathetic accompaniment of the recent problems involved in the quest for markets and the disposition of a marketable surplus. Naturally, this interest directs their attention toward the field of consumption.[19]

In the fourth edition, the authors present a statement concerning consumption that is even stronger than the above.[20]

Of 23 chapters in Raymond T. Bye's *Principles of Economics*, one is concerned with consumption.[21] Of 29 chapters in *Applied Economics* by Bye and William H. Hewett, a companion volume, one is concerned with consumption and the guidance of industry.[22] The first of these volumes has passed through four revisions[23] and the second three.[24] The authors in each edition give consumption a definite place in pure as well as applied economics.

In Garver and Hansen's *Principles of Economics* which appeared in 1928 there was no direct treatment of consumption. Even in the index the only reference to consumption appeared under a single caption entitled "consumers' demand and utility" and even this caption covered material which was limited to two pages. But in the revised edition of 1937 one chapter was devoted to income, consumption and production and one chapter to consumers' demand and

[18] Donald W. McConnell, Edith Ayers, A. Anton Friedrich, Willard E. Atkins and others, *Economic Behavior*, p. 748.

[19] Vol. I, p. 333.

[20] Fourth Edition, Vol. I, p. 322.

[21] Pp. 454–481.

[22] Pp. 18–34.

[23] Raymond T. Bye, *Principles of Economics: A Restatement*, Fourth Edition. Pp. 577-605.

[24] Third Edition, pp. 34–49.

utility.[25] Apparently, somewhere between the appearance of the first edition and the revised edition, the authors discovered consumers and decided to give more than mere passing consideration to their activities.

In Gemmill and Blodgett's *Economics: Principles and Problems* there is an opening chapter on wants and their satisfactions. In the very first sentence it is observed that "the starting point of economic life is the existence of human wants."[26] After discussing the number and kinds of wants and the ways in which they change from one period to another, the authors proceed to an analysis of the scarcity of goods. In Part Six, they include two chapters directly on the economics of consumption.[27] The first of these chapters is concerned with the principles of consumption and the second with waste in consumption. "In view of the obvious importance of consumption, it may seem strange," the authors themselves point out, "that we have allotted but two chapters—less than four per cent of the total number in the present work—to its treatment. This, however, is more space than is commonly given to a consideration of consumption in economic textbooks."[28]

Finally, William H. Kiekhofer in his *Economic Principles, Problems and Policies* has devoted Part IV, or 48 pages out of a total of 935 pages, entirely to consumption and saving. It is composed of three chapters: one on the interdependence of consumption and production, one on factors affecting consumers' choices and one on spending and saving. The place of consumption in economics is indicated by the following:

> The production, exchange, and valuation of goods, which have been considered in the preceding parts of this book, are social processes which make possible the gratification of human wants. For the most part, men produce in order that they may consume. In the case of individuals, however, consumption is often not a very conscious objective in production. Some men work from force of habit; or because work is more enjoyable than inactivity; or perhaps because work means life to them very much more than a mere means of living. Whatever the motivation of individuals in productive and acquisitive activities may be, there can be no question that, from the social point of view, our whole productive system is organized to make possible larger and better living.[29]

In the revised edition, Part IV is still concerned with consumption and saving but the number of chapters are reduced from three to two and the number of pages from 48 to 40.[30]

VI

That the consumer has attained a permanent as well as a prominent place in the field of economics is further indicated by the appearance of a number of

[25] Frederic B. Garver and Alvin Harvey Hansen, *Principles of Economics*, pp. 16–33 and pp. 134–151.

[26] Paul F. Gemmill and Ralph H. Blodgett, *Economics: Principles and Problems*, Complete in one volume, Vol. 1, p. 3.

[27] *Ibid.*, Vol. 2, pp. 593–639.

[28] *Ibid.*, Vol. 2, pp. 593–594.

[29] 1936 edition, p. 643.

[30] Revised Edition, 1941, pp. 619–659.

special texts on consumption. Chief among the texts which were written from 1920 to 1930 are the following: *A Theory of Consumption* by Hazel Kirk, 1923; *Economic Motives* by Z. C. Dickinson, 1924; *Purchasing Power of the Consumer* by W. A. Berridge and others, 1925; *Your Money's Worth* by Stuart Chase and F. J. Schlink, 1927; *The Consumption of Wealth* by Elizabeth E. Hoyt, 1928; *The Economics of Consumption* by W. C. Waite, 1928; and *Economic Principles of Consumption* by Paul H. Nystrom, 1929. Some of these books deal with the economics of consumption; some with the factors influencing consumption; and some with consumption in relation to marketing; but regardless of their viewpoints they represent important stages in the development of consumer economics.

The principal books concerned with consumption which have appeared since 1930 are six in number. In 1937, Charles S. Wyand published his *The Economics of Consumption.* In 1938, Elizabeth E. Hoyt following up her earlier interest in consumption published her *Consumption in Our Society.* In 1938, Roland S. Vaile and Helen G. Canoyer brought out their *Income and Consumption.* In 1938, Margaret G. Reid presented her *Consumers and the Market.* In 1939, Warren C. Waite and Ralph Cassady added their *The Consumer and the Economic Order.* In 1939, Leland J. Gordon topped off the list with his *Economics for Consumers.*

These as well as earlier special texts on consumption are of two general types: first, those that are written by home economists and second, those that are written by general economists. The home economists emphasize the incompetence of the average consumer due to the lack of proper training to cope with the modern market. The bewildering variety of goods from which to make selections, high pressure selling and advertising, the difficulty of judging quality and of comparing prices, the necessity of buying in small quantities, the distance between producers and consumers—all put the consumer-buyer at a disadvantage and make it impossible for him to attain any high degree of efficiency in expending his income. Hence, the books written by home economists stress matters of labelling, testing, grading and standardizing and are concerned primarily with methods and techniques of wiser spending.

Books of the general economics type emphasize the role of the consumer in economic life. They deal with the evolution of the consumer, with forces back of consumer demand, with consumer income and its use, with consumer protection, and with the problems of consumption as they permeate the entire economic order. More or less extended consideration is ordinarily given to the techniques of buying, to budgeting, to cooperatives, to government protection and to consumer education as ways in which consumers may improve their standing in the economic system. These books indicate not only the discovery of consumers by economists but also the very definite development of consumption as a separate but closely integrated branch of economic science.

VII

The increased emphasis which economists have placed upon consumption during the past two decades is due to the play of a variety of forces. Since

these forces and their effects on consumption are familiar to most readers, it is unnecessary to present them in full. All that is required is a mere summary. The forces which have operated either directly or indirectly to bring about readjustments in the treatments of consumption may be reduced to seven in number: first, the shift of the nation from an expanding to a more mature economy; second, decrease in consumers' incomes in the depressed thirties; third, changes in the economic functions of the family; fourth, production of increased kinds and quantities of consumers' goods; fifth, development of Keynesian technique of analysis; sixth, revolt of consumers against high-pressure selling and advertising; and seventh, the emergence of a possible science of consumption. These changes have naturally influenced the thinking of economists, have aroused them to action and have had far-reaching effects upon their writings.

Due to the entry of the United States into the war and to the role which it has decided to play among the united nations, the interests of economists in consumption will undoubtedly increase greatly as the war progresses. In time of war, two kinds of demand are made upon the economic system: military and civilian. Each of these kinds of demand competes with the other. Military demand which is the more urgent springs up immediately once war is declared and starts the wheels of production to turning with increased rapidity. Civilian demand, due to greater purchasing power arising out of wartime production, also greatly increases. Hence, the government must bid against civilians for the output of the economic system and the prices of everything including the weapons of war tend to rise. In the midst of these circumstances the relation of consumption to production and the extent to which military demand takes precedence over civilian demand become of vital importance to the entire nation. Moreover, high prices, increased tax burdens and the meeting of other requirements precipitated by war tend to decrease real incomes, and the level of national consumption may be greatly reduced—reduced below even that which is necessary to maintain the required efficiency essential to the winning of the war. As the nation proceeds, therefore, with the execution of its war policies, economists will without question be compelled to devote more and more attention to the problems of consumption.

BOOK REVIEWS

Social and Cultural Dynamics, Volume IV, *Basic Problems, Principles, and Methods*. By Pitirim A. Sorokin. New York: American Book Co., 1941. Pp. xv, 804. $6.00. Vols. I–IV, $20.00.

Edward Gibbon, writing at the time of the American struggle for independence, could point with some plausibility to the second century A.D., at which time the inhabitants of Italy probably did not average 35 years of life, as "the period ... during which the conditions of the human race were most happy and prosperous." The century and a half which followed witnessed an unprecedented improvement in the human lot in the Western world, and robbed Gibbon's observation of whatever validity it may have had. This continual improvement long blinded men to the possibility that fissures might appear in the Western social structure; for scholars were more prone to inquire into the origins and development of the modern world than into the reasons for the decay of the Hellenistic and Roman worlds; and the Cassandra-like utterances of such writers as Brooks Adams (1897) and later Oswald Spengler served only to ripple the placidity with which men contemplated the future. Even when, in the eighth year of the depression and in the fourth year of Nazi ascendancy, the first three volumes of Professor Sorokin's monumental work, with its melancholy but challenging forecast, first appeared, Western thinkers refused to be alarmed. The present volume, the final one in the series dealing with circumstances that account for the rise and fall of cultures, appears at a time when the future of the democracies hangs in the balance; whence it is likely that the author's findings and observations, which, be they valid or no, illuminate the domain of social science, will be carefully assessed and utilized to usher in a more promising tomorrow.

In Part I of the volume under review the author deals with sociocultural systems and their properties. He concludes that the total culture of an individual or society is not an integrated system, but a combination of coexisting unified supersystems and nonassimilated congeries, shot through with varying amounts of inconsistency and contradiction. In Part II, where he analyzes how culture changes, he develops a number of principles of cultural change. In Part III he treats the why and how of sociocultural change: specifically he suggests that there are several systems of truth, each inadequate but associated closely with one or another system of culture; and that, as a system of culture develops, it favors one system of truth at the expense of the others until growing imbalance and nonadaptability bring about the internal decay of the expanding cultural system and its supersession by another system. He concludes by delineating the manner in which the present sensate culture will give place to its successor.

Professor Sorokin appears to assign a lesser importance than Toynbee (for Sorokin's appraisal of Toynbee's *Study of History*, see *Journal of Modern History*, September, 1940) to what Toynbee calls the "creative minority." If

Sorokin's interpretation is valid, it is less likely (than on Toynbee's premises) that an aggressive *élite* may yet reinvigorate and so preserve Western culture in the sensate form we know.

Economists and economic historians will find of particular interest the author's analysis of those theories of social change which place major emphasis upon modifications in the material sphere, and his description of the operation, in the field of social data, of the principle of immanent change and the principle of limit.

Whether, in light of the principles set down, the cultural outlook is as melancholy as the author's analysis suggests, the reader must determine for himself. However, in light of the self-sacrificing and for a time seemingly hopeless struggle waged by so many European individuals and peoples against the cruel Nazi terror, and in light of the influence which a vigorous leadership can exercise over the underlying population, it is quite possible that the establishment of a more rigorous élite-selecting system can preserve, animate, and perpetuate the substance of that sensate culture to which we owe the fact that the history of Western man is no longer essentially the history of hunger and disease.

Duke University. J. J. Spengler

Planning for America. By George B. Galloway and Associates. New York: Henry Holt & Co., 1941. Pp. xi, 713. $3.00. (Trade Edition, $4.00).

Aside from the exigent problems of total war, no questions today are of more moment to the American social scientist than those which are treated in this book. Is America's future to be one of centralized planning? The gloomy prophecies of Burnham, the nostalgia of those who would return to laissez faire, and the bright hopes of the "socializers of democracy" all revolve ultimately around the issue of whether we are to have planning, and if so, whether we may expect democratic ideals and controls to persist.

Mr. Galloway is the former field representative of the National Economic and Social Planning Association. He holds the view that planning in a modern democratic state is not merely desirable, but imperative. This conviction is reflected in the assumptions of his introductory chapters and in the statements of his concluding ones. Treatment of the broader philosophical and theoretical aspects of planning is confined largely to these two sections.

Couched between Mr. Galloway's philosophical beginning and ending is the real meat of the book, in which more than 30 scholars present a comprehensive picture of what types of planning were actually being effected or immediately contemplated in the United States before we entered World War II.

Of primary interest to economists will be the section on Economic Planning, which includes the following contributions: Oscar L. Altman, "Savings and Capital Formation"; Theodore J. Kreps, "Planning Industrial Policies"; Oris V. Wells, "Planning and Agricultural Adjustment"; Gustav Peck, "Employment Planning"; Mordecai Ezekiel, "Income Distribution and Consumption"; J. K. Galbraith, "Fiscal Policy and the Employment-Investment Controversy"; John Bauer, "Public Works Planning"; National Resources Planning Board,

"Planning for Transportation Needs"; and Ernest Minor Patterson, "International Economic Relations."

Other sections are on Resources, Social, Area, and Defense Planning.

Social inventions suffer from a high rate of infant mortality; and war, which indeed upsets "the best laid plans of mice and men," accelerates this rate. It is likely, therefore, that many of the infant plans described in this book are already dead or dying. Perhaps others of them will survive. At any rate, the book will remain a creditable account of what American planners were doing and thinking before Pearl Harbor.

University of North Carolina FRANK BOWEN EVANS

The Economic Development of the American Nation. By Reginald C. McGrane. Boston: Ginn & Co., 1942. Pp. xii, 691. $3.75.

This new text, chronological rather than topical, is "organized around successive periods of prosperity and depression." Such an oganization, doubtless influenced by the author's previous publications, naturally stresses too heavily some phases of our economic development and neglects other aspects of our economic life. Then, too, it leads at times to a somewhat choppy treatment. Chapter titles, moreover, often fail to convey a clear idea of chapter content. At times, furthermore, an important period may be neglected. Thus, the period 1776–1815 draws little more than one page for each year. Occasionally evidences of hasty proof-reading, misleading sentences, and too sweeping statements appear. Such examples may be found on pp. 82, 84, 127, 151, 157, 208, 253, 322, 324, 325, 370, 380, 460, and 550.

The book, nevertheless, is a good one. It has 28 pertinent maps, 13 charts and graphs, 13 cartoons, and 22 other illustrations. It has an adequate index and an excellent topical bibliography. Except for the period 1776–1815, the emphasis on periods is well placed. Slightly more than one half of all pages are devoted to the period since 1865. Several of the chapters deserve marked praise: the reviewer especially likes "Rise of the Industrial East," "The Last Frontier," and "The New Deal." He also likes the comparative freedom from sarcasm, or sarcasm combined with compliment as may appear in this sentence (p. 634): "The PWA program was placed under the charge of Secretary Ickes, of the Interior Department, who was more interested in spending the money honestly than in spending it quickly." Sentences are often picturesque, and the words are revealing. The author calls Hamilton (p. 142) a "small, slender, red-haired, dignified, graceful youth," "a vain and egotistical person of boundless ambition and tireless energy," and "this master of words as well as accounts." A particularly good summary sentence on the textile inventors (p. 137) reads: "The mechanical genius of a weaver, a barber, a violinist, a preacher, and a school teacher revolutionized the methods of making cloth." In discussing "Washington and Problems of Neutrality" Dr. McGrane uses (p. 150) the striking phraseology, "decrepit Austria and foolish Prussia." Emphasis throughout the text is placed upon cause and effect, explanation and analysis being emphasized more than description.

University of Kentucky WALTER W. JENNINGS

American Society and the Changing World. By C. H. Pegg and Others. New York: F. S. Crofts & Co., 1942. Pp. xiii, 601. $3.50.

Within the decade of the 1930's the persistent and increasingly widespread demand for the substitution of surveys of wide fields of knowledge for the traditional introductory departmental courses presented to the social scientists the problem of what to include in a survey. In general there were two broad schools of thought in the colleges, with wide variations within each. One group held to the opinion that the proper method of introducing the young college student to the social problems of the present age was by means of world history or the history of civilization. The opposition sometimes wished to excude history as such altogether and to introduce the student to the world in which he lived by teaching him a few of the principles and some of the important problems of each of the departmental fields of the social sciences.

Many colleges could not find the proper texts for the course as they desired to teach it and resorted to mimeographed texts and crude syllabi. The University of North Carolina first used a syllabus written by members of the several departments which cooperatively taught the course. The experience of nearly ten years of teaching and revision has contributed to *American Society and the Changing World.*

The authors are young enough to be enthusiastic and energetic, yet experienced enough to have achieved ripened scholarship. They have produced a scholarly text—one, it is true, which is a compromise between the two extremes of thought as to what the course should consist of. Part I, "The Changing World," is composed of 11 chapters and 222 pages. Part II, "The United States and Its Problems," has 19 chapters.

In spite of the diverse authorship—there were ten collaborators—and the prefatory statement that "it is obvious that no collaborative work in the social sciences can possess the unity of a book written by one person," there is a remarkable degree of uniformity in the writing. Some chapters are better than others, as in most books, but all are good. There is some lack of continuity, but it is not serious.

To put into such a text all that it would be desirable for the student to know is obviously impossible. Something must be left out. One could wish, however, that slightly more of the geographical and historical background might have been included. In an introductory college course is it logical to assume that students, without being told, will comprehend "the age of realism," "Bismarck's policy of bood and iron," or "Pan-Slavic movements" (p. 9)? Where would the beginner get his knowledge of "the old quarrel between the Catholic Church and the government, springing from the occupation of Rome in 1870" (p. 61)? Is the assumption "that the reader is already familiar with the main features of European imperialism in Africa and Asia" (p. 161) justified? These excerpts, taken at random, are merely illustrative. The information the student is assumed to have is often to be found neither in the text itself nor in the reading lists at the ends of chapters.

Part II is a well-developed treatment of contemporary American problems. Again, the absence of a historical and geographical background may be regretted.

What the problems of Americans are is adequately presented, but the whys and wherefores, generally considered important and sometimes almost essential to understanding, are conspicuously missing. This is a radical departure from the mimeographed syllabus, the book's original ancestor, which stressed history, particularly American history.

The book is attractive in appearance. Topical headings within chapters will add to its use value. Photographic reproductions and colored maps and illustrations are not included, in fact there is only one black-and-white map in all of Part I. Part II has adequate charts, tables, and black-and-white maps.

American Society and the Changing World is an excellent textbook, probably the best in its field this reviewer has examined. It has many of the better features of both types of social science texts; it also has some of the defects of each. A college course based on it will be an extremely good course. It fails to do only that which all books fail to do, contain between its covers all the knowledge it would be desirable to impart to beginning college students in the illimitable field of the social sciences.

University of Georgia MERRITT B. POUND

Peace by Power. By Lionel Gelber. London: Oxford University Press, 1942. Pp. vii, 159. $1.50.

This is a forceful challenge thrown out to those who in the midst of war would discuss the peace to come.

Lindbergh is right. We are fighting for power. But Lindbergh is wrong in not seeing the vital distinction between power in the hands of the virtuous and power in the hands of knaves. We fight for power to do good, and the end justifies the means.

That is the main thesis. Its author has no patience with Utopian dreamers of a world federation. Even Churchill and Roosevelt and Sumner Welles err in suggesting a golden age when men will live in freedom. Power alone can assure safety. It is a crime to create false hopes.

Must Germany be destroyed? No. At least not in the sense that all Germans must be wiped out. They may be allowed to dwell on this globe, but in political and economic impotence.

This challenging argument leaves one grave question in the reviewer's mind: How can a society that wields such power over others abroad maintain at home a system of checks and balances? Are human beings capable of exercising dominion over "lesser breeds" while at the same time preserving the virtues of democratic life at home? Or is power over others incompatible with the spirit of freedom and equality of opportunity?

University of North Carolina ERICH W. ZIMMERMANN

Economic History of Europe, 1760–1939. By Ernest L. Bogart. New York: Longmans, Green, & Co., 1942. Pp. xiii, 734. $4.50.

Dr. Bogart accords approximately equal treatment to each of the three parts of his text, "The Rise of the Machine, 1760–1870," "Economic Rivalries,

1870–1914," and "Economic and Commercial Rivalries, 1914–1939." In each part the chapter sequence is the same, i.e., "Agriculture," "Industry," "Commerce and Commercial Policy," "Transportation," "Money, Banking and Finance," "Labor and the Labor Movement," and "Population and Welfare." One chapter of synthesis, "The Causes and Consequences of the World War," is inserted at the beginning of Part III, and the text closes with a chapter on "New Forms of Economic Organization." In the last chapter alone the author departs from his exclusive treatment of economic developments in Britain, France, and Germany to consider major economic changes in Russia and Italy. With the exception of casual references, no other European countries are discussed.

Despite the advantages of the functional pattern of organization which Dr. Bogart follows, one misses summary analyses at the end of the chapters, or chapters of integration dealing with the whole broad front of European economic development. However, the omission of such summary paragraphs and chapters does not diminish greatly the value of the text. It is decidedly teachable. Its organization, topical sequence, intelligent use of statistical data, and its interesting style and content make it well adapted to economic history courses at the undergraduate level. Furthermore, because of the functional approach to European economic institutions that is followed, appropriate chapters may be usefully employed as background material for specialized courses such as Labor Problems, Money and Banking, or International Commercial Policies.

University of North Carolina ALLEN T. BONNELL

Nation and Family: The Swedish Experiment in Democratic Family and Population Policy. By Alva Myrdal. New York: Harper & Bros., 1941. Pp. xiii, 441. $4.00.

Up to the time of the Hun onslaught on Poland, Sweden had been the only democratic country to make a thorough inquiry into domestic population trends, their causes and their consequences, and alternative ways of redirecting these trends. Dr. Myrdal's work, here under review, includes a digest of the 17 reports prepared in 1935–38 by the Swedish Population Commission; it is offered also as a substitute for an English version of the Myrdals' earlier (1934) *Kris i befolkningsfrågan.* Because the present work, while concerned primarily with Sweden, deals with a democratic as opposed to the totalitarian approach to the population question, and is therefore of great interest and use to American students, it may not be amiss to indicate its contents at greater length. Part I deals with changes in Swedish demographic and familial indices and practices, with qualitative population changes, with population goals, and with the general problem of means appropriate to the realization of such goals. Part II deals with provisions in Sweden pertaining to population goals and means: education, family-planning, economics of homemaking, housing, food and health problems, maternal aids, recreation, and social security. Many tables, a bibliography, and an appendix are included. The reviewer's students report the book very interesting and enlightening.

Many interesting facts, undoubtedly as true of America as of Sweden, and of significance in this day when exponents of *lapinism* are again coming to the fore, are presented. Analysis of data on income and family size indicate that "there does not seem to be much validity for the argument that modern man is so spoiled that he is not willing to sacrifice a comfortable life in order to assume the responsibilities of parenthood"; budgetary items other than luxuries have displaced children. It is shown that "an honest recognition of birth control and family planning is implicit in . . . democratic population policy"; that through community measures nearly all items of cost attendant upon the support of children can be reduced; and that public housing programs may be effectively coordinated with population policy. The advantages of aids in kind, as compared with cash subventions, are indicated. The usefulness of prefamily education is evidenced. It is noted that a population program cannot succeed unless it allows women a status with which they will be satisfied. Among the lines of reform indicated as prerequisite to population maintenance the following are emphasized: "free delivery, free prenatal and postnatal care for all mothers, free medical care and health control for all children"; "subvention of rent and other housing costs for children"; "free education" and "free nursery education"; "somewhat reduced costs for clothing" and "reduced costs and improved facilities for family recreation"; "increased security of employment for fathers and mothers" and "social responsibility" for children in incomplete or handicapped families.

Needless to say, many of the principles and methods discussed by Dr. Myrdal are still subject to debate. For example, the submarginal portions of populations are not dealt with adequately, in the reviewer's opinion; and the fundamental effects of social structure upon motives need more elaborate treatment. These questions, however, cannot be handled satisfactorily within a review.

Duke University J. J. SPENGLER

The Politics of Mercantilism. By Philip W. Buck. New York: Henry Holt & Co., 1942. Pp. viii, 240. $2.00.

This well-written and compact book will appeal to the ever growing number of people impatient with attempts to isolate economic and political theory. Mercentilism was essentially an attempt to obtain an all-round solution for a set of problems in what was essentially a war economy. The preface states that the main purpose of the author is the analysis of the political doctrines of the English mercantilists. The book itself stresses the importance of backgrounds and makes history live through a stimulating comparison of the mercantilists with present-day totalitarians.

The author clearly outlines the plan of the book. "The first chapter outlines briefly the conditions which gave rise to mercantilist doctrine and the practices of states in that period. The second summarizes the economic thought of the writers. The third and fourth set forth the political implications of the mercantilist ideas, and describe the nature of the state which is necessary to carry the program into action. The last chapter criticizes mercantilist political doctrine and compares it to the theories of present day dictatorships."

While the inclusion of the word *politics* in the title would seem to stress the political point of view, the treatment emphasizes the interworking of economic and political considerations in the solution of very practical problems. The resulting unity makes the book an excellent method by which to obtain a realistic impression of the nature of mercantilism. Excellent bibliographical notes will guide a more detailed study.

University of Virginia. D. CLARK HYDE.

The Economics of War. By Horst Mendershausen. New York: Prentice-Hall, 1940. Pp. ix, 314. $2.75.

The Economics of Total War. By Henry William Spiegel. New York: D. Appleton-Century Co., 1942. Pp. xiv, 410. $3.00.

Introduction to War Economics. By Brown University Economists, Alfred C. Neal, Editor. Chicago: Richard D. Irwin, 1942. Pp. iii, 248. $1.25.

War Economics. Edited by Emanuel Stein and Jules Backman. New York: Farrar & Rinehart, 1942. $3.00.

American Industry in the War. By Bernard M. Baruch. New York: Prentice-Hall, 1941. Pp. xii, 498. $5.00.

The books here listed represent tangible evidence of the impact of war on the teaching of economics in American colleges. They are a random list, sufficiently varied to reveal this significant trend of educational practice.

When Mendershausen wrote his *The Economics of War*, the great conflagration still appeared as a European disaster from which many of us hoped to escape. Our interest in war, therefore, was rather detached, almost academic. Mendershausen's work reflects this attitude. He treats of war in general, war through the ages, and seeks to evaluate its impact on economic life in broad terms. He deals with causes of war, economic means of warfare, economic war potentials, economic consequences of war, and economic problems of peace. The treatment is brief, simple, sensible; the language is clear and direct. Even today the book possesses decided merits as an introduction to the study of the economic implications of war. In the appendix is given a large diagram comparing the *Economic War Potentials* of belligerent groups. This is suggestive rather than exhaustive. Moreover, most students will need considerable guidance if they are to interpret the wealth of data intelligently. An explanatory chapter on this table might be a desirable feature of a later edition.

While Mendershausen addresses himself to the general public at least as much as to the college student, the remaining three textbooks are definitely designed for class use. Spiegel's *The Economics of Total War* appears in Kiekhofer's *The Century Series in Economics.* The other two volumes are written by groups of teachers of economics connected with Brown University and New York University respectively. In the latter instance two outsiders collaborated.

These three textbooks published in 1942 bring us much closer to the great struggle. By then it had become Total War, the Second World War, and Our War. They clearly bear the stamp of Pearl Harbor. What in Mendershausen appears as general and abstract has become specific, concrete, almost personal.

Spiegel emphasizes the tangible, physical aspects of modern war, problems of

manpower, of food supply, of procurement of strategic materials. The Brown University group seem particularly concerned with the task of weaving the principles of war economics into the general principles of economics. The New York University group in turn give special attention to financial, legal, and administrative problems of war as it affects the United States. All three give a fairly complete picture; yet their relative emphasis varies sufficiently to render the volumes complementary to some extent.

Both the Spiegel and the Stein-Backman volumes are evidently designed as textbooks for special courses in war economics, while the Brown University volume is intended as a supplementary text to be used in the general principles course. In fact, it is suggested that it might be substituted for the customary assignments in the "isms."

These volumes must have been prepared under more than usual pressure for time. Moreover, the authors can hardly have been immune from the unsettling influences of the times. Nevertheless, the books are of a standard that speaks well of the caliber of the men who have undertaken these difficult tasks.

One particularly noteworthy feature of Spiegel's book is the large and carefully selected bibliography. The Brown University text should prove exceptionally teachable. The Stein-Backman text is marked by the thoroughness with which particular problems are treated. Its appendices furnish a list of documents which many will welcome.

The Baruch volume is of an entirely different nature from the four books discussed above. It is a collection of documents which may well be used as collateral material in courses on war economics. Four hundred and eight of its 498 pages are taken up with a reprint of the Report of the War Industries Board of World War I. The remaining 90 pages contain, beside an index, Mr. Baruch's program for total mobilization as presented to the War Policies Commission in 1931, as well as current materials on war priorities and price fixing. The introduction was written by the late General Hugh S. Johnson.

University of North Carolina ERICH W. ZIMMERMANN

Air Transportation in the United States. By Hugh Knowlton. Chicago: University of Chicago Press, 1941. Pp. vii, 72. $1.25.

This book presents a compact study of civil air transportation of the United States, as carried on by the organized air line companies, giving an analysis of the basic civil air functions performed by them, together with the economic factors underlying the phenomenal growth of the industry. Owing to the compactness of the subject matter, much information had been omitted, which, in the opinion of the reviewer, detracts from the study and gives an inadequate basis for the conclusions reached.

The author holds that air transportation is only at the beginning of its growth and that speed is its stock-in-trade. He further maintains that air transportation in the United States will not supplant other forms of transportation but will join with them as a major part of the country's transportation system.

This book would be more contributory had the author undertaken a more thorough analysis of some particular phase of domestic commercial air trans-

portation, rather than attempting such a wide coverage of the field in such a brief manner.

University of North Carolina J. C. D. Blaine

Air Transportation. By Claude E. Puffer. Philadelphia: Blakiston Co., 1941. Pp. xxiv, 675. $3.75.

This book is of special interest because it presents a comprehensive analysis of the regulatory aspects of commercial air transportation of the United States. Although the major portion of the book is given to the domestic phases of the subject, adequate treatment is given to foreign commercial air transportation as carried on by American flag carriers, whenever such information adds to the completeness of the study.

The purpose of the book is "to investigate the economic and legal characteristics of the air transportation industry in an effort to decide whether or not the industry should be regulated; to analyze present and past federal legislation to determine whether it has been sound or unsound; to evaluate the efficiency with which federal laws have been administered; and to suggest improvements in law or administration."

The approach to the subject matter is inductive. Consideration is given to the laws and administrative activities from the passage of the Kelly Act of 1925 to the time of the publication of the book. In addition, specific references to and interpretations of the opinions and regulations of the Civil Aeronautics Board (Authority) are made from the time of the Board's inauguration until the date of the book's publication.

Although the author holds that the law of civil aviation has not been sufficiently crystallized as yet, he does believe that it has progressed far enough to permit the conclusion that air carriers are common carriers and, therefore, subject to the responsibilities and liabilities incumbent upon them.

Doubt is expressed as to the wisdom of abolishing the Air Safety Board, as was done in the reorganization of the Civil Aeronautics Board as of June 30, 1940. The view is given that this action was probably premature. As to the relocation of the functions between the Administrator of Civil Aeronautics and the Board, the author expresses satisfaction, but is skeptical as to the wisdom of placing civil aeronautics under the direction of the Department of Commerce.

In connection with air mail payments, it is recommended that substantial revisions of the air mail rate-making elements be inaugurated so as to give more adequate aid to weak carriers and that experimentation in air mail postage be undertaken with a view to finding the most satisfactory rates to be established.

The reviewer is impressed by the realistic approach which characterizes the book. The study is backed by thorough and exhaustive research which should make it of much worth to the student in the field.

University of North Carolina J. C. D. Blaine

The Independent Regulatory Commissions. By Robert E. Cushman. New York: Oxford University Press, 1941. Pp. 759. $5.

The appearance in one volume of a carefully prepared study of the Federal

Regulatory Commissions is indeed welcome to students and teachers in the fields of public administration and government control of business. This volume has even a wider appeal because of the historical nature of the work. Nowhere else can one find such a comprehensive and authoritative treatment of all of the existing commissions. In addition to this, the author devotes 166 pages to discussion and appraisal of British agencies for the regulation of economic enterprise. One short chapter outlines the salient features of typical state regulatory commissions. Besides the nine great existing commissions, attention is given to those commissions no longer in existence and others which have become incorporated in governmental departments.

The author states in the following language his purpose in preparing this volume. "In the first place, it attempts to present a comprehensive and accurate survey of the legislative history of the independent regulatory commission movement." In scope the work is limited by omitting entry into the field of economic policies which operated to bring about the commission movement. Neither does the work cover, except incidentally, the record of accomplishment of these various federal agencies.

The hybrid nature of the commission form of regulation, cutting as it does across the separation of powers of our constitutional system, presented complex legal problems. As pointed out, the courts have been lenient in sustaining the commission form of regulation. In treating their constitutional status, the author handles in adequate manner the delegation of legislative, executive, judicial, and administrative powers, independence of departmental domination, and the powers of removal held by the President. Perhaps some further treatment might have been given to the series of hostile decisions of the Supreme Court toward the Federal Trade Commission and mention made of the changed attitude of the Court to be found in the Standard Education Society Case of 1937.

A further problem raised by the nature of commission procedure and running throughout most of the commissions is their quasi-judicial character. While this intermixture of powers provides a needed flexibility to operation, it creates an attitude of suspicion. The right of judicial review does not overcome the feeling that one body which prosecutes, hears the facts, and acts as judge all at the same time can not be absolutely impartial. The author believes that this judge-prosecutor combination should be remedied by a segregation of the prosecution and adjudication functions.

In format the volume is excellent. The style is clear and vigorous. In addition to a 15 page index, the work contains a table of 62 cases and a chart showing essential facts of all of the commissions.

University of North Carolina R. J. M. Hobbs

The Federal Reserve Bank of Cleveland. By Arthur F. Blaser, Jr. New York: Columbia University Press, 1942. Pp. xxvii, 306. $3.50.

This is a study of the Federal Reserve Bank of Cleveland, which has become "an efficient service station" rather than "a regional central bank as was contemplated in the original Federal Reserve Act" (pp. 275, 274). The same fate

has overtaken, impliedly, the other Reserve banks. The principal reason for this development is found in the artificial boundaries of the Fourth Federal Reserve District. Economic activity is not organized, operated, or financed with any attention to district limits. The importance of this situation is developed in the first four chapters, over half the volume. The prevalence of large corporate enterprises which can secure their funds in other areas, and the importance of government credit agencies, life insurance companies, and other lending agencies which supply funds with little regard for district lines and outside the jurisdiction of district Federal Reserve officials, is emphasized. For these reasons and because of the greater authority and powers of the Board of Governors and the Treasury, the Cleveland bank had an "inconsequential" ability to influence credit conditions in its area. This helplessness of the Cleveland bank is found to be characteristic of any district bank, in a twenty-page chapter which is not wholly convincing. There are two chapters descriptive of the organization and service operations of the Cleveland bank, and two others detailing the comparatively unsignificant credit policies and credit operations of this bank.

The environment against which the bank had to contend is described as it existed in 1929 or subsequently. The argument that environment caused the impotency of the bank would have been stronger if some study of the economic development of the district had been included. Furthermore, there are indications that the management of the bank made little effort to influence conditions in its district. In extending credit, its policies "were distinctly conservative" (p. 274). Officers of the bank disclaimed any responsibility for suggesting sound credit policies to member banks (p. 225). In fact, the bank "did not in any sense become the financial cornerstone of its district or exert a strong influenc therein" (p. 274). While the economic environment in the Fourth District might have been an insuperable obstacle for any management—Professor Blaser presents a good case for the existing situation—the implication that district credit policies in differently constituted districts would have been impossible, does not seem warranted.

University of Florida HARWOOD B. DOLBEARE

The Investor and the Security Act. By Homer V. Cherrington. Washington, D. C.: American Council on Public Affairs, 1942. Pp. x, 255. $2.50.

The author analyzes the policies and accomplishments of the Securities Exchange Commission in administering the Securities Act of 1933. The work of the Commission under the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935 and the Investment Company Act of 1940 are not discussed. There is, however, a brief analysis of the Trust Indenture Act of 1940. A number of articles have been written concerning special phases of the Commission's activities. But there have been published only a few books which, like this volume, broadly outline for the general reader the work of the Commission under the Securities Act of 1933 and attempt to estimate the value of such legislation for the investor.

The book constitutes one volume of the series of economic studies published by the American Council on Public Affairs as one method of carrying out its purpose of "promoting the spread of authoritative facts and significant opinions concerning contemporary social and economic problems."

The author begins with a concise outline of the abuses from which investors have suffered and after his presentation of the Securities Act and its administration in the intervening chapters concludes with a statement of the abuses remedied and those not corrected by the law. The brief chapters on the history of legislation prior to 1933, provisions of the Securities Act and the contrast between British and American legislation contain information largely familiar to the student of the subject but serve as a background for the more important chapters concerning the decisions and procedures of the Securities Exchange Commission. Among the topics considered are the form and amendment of the registration statement, the waiting period, stop orders, standards of truthfulness and misrepresentation, regulation of the underwriters of new securities and of accountants and others who help to prepare registration statements.

One gains the impression from the book that not only is the Commission securing full and correct information but, in some instances, is remedying corporate abuses. Correction of undesirable policies has usually been secured through the threat of publicity in the registration statement. In a few instances, however, the Commission has been able to order directly a change of policy. For example, if promoters have overvalued property which they are selling to the corporation in exchange for common stock, the Commission may require modification of such valuation as false or misleading. The book is recommended for those desiring an easily readable, fairly short presentation of the subject.

University of Tennessee THEODORE W. GLOCKER

National Income and Its Composition, 1919–1938. By Simon Kuznets, assisted by Lillian Epstein and Elizabeth Jenks. New York: National Bureau of Economic Research, 1941. Two volumes. Pp. xxx, 929. $5.00.

This two-volume report on the thoroughgoing study of national income merits the attention of all who are either preparing or using any type of income estimate. The detail with which it was necessary to state the concepts and the statistical measures in order to link them closely, however, may discourage use of the estimates by those who are not specialists in the field. The main objective of the investigation was to arrive at annual estimates of national income in the United States in the period 1919 through 1938. These estimates, presented and analyzed in Part Two, replace those previously published in *National Income and Capital Formation* by the same author. With the aid of W. I. King's estimates, the analysis of payments to individuals, excluding entrepreneurial savings, is extended back to 1909 on a roughly comparable basis.

The estimates are presented in more detail and are analyzed in a wider range of economic categories than are commonly employed in income analysis. Three new classifications segregate income components according to (1) character of productive function (commodity producing, commodity transporting and dis-

tributing, and services), (2) durability of product, and (3) type of business organization. The author is resourceful in arranging cross classifications between these groups and those more commonly used, namely distribution by industrial source and by type of payment or accrual. In addition, the author directs attention to types of final product to indicate how national income is utilized. Through the use of short-period averages, considerable light is thrown upon the cyclical behavior of various components of income.

Individuals who have occasion to adapt estimates to meet specific needs will find a reservor of information in the detailed tabulations and explanatory notes which comprise Part Four. Similarly, the comparison of results of this investigation with other estimates of national income (Chapter X) will be of especial interest to those who use the estimates published currently by the Department of Commerce.

University of Alabama WENDELL ADAMSON

Business Cycles and Their Causes. By Wesley Clair Mitchell. A New Edition of Mitchell's *Business Cycles:* Part III. Berkeley and Los Angeles: University of California Press, 1941. Pp. xii, 226. $3.00.

This is a reprint "with no changes beyond betterment in wording and the correction of an arithmetical blunder" of Part III of Mitchell's epoch-making *Business Cycles* published by the University of California Press in 1913 and out of print for nearly two decades. Part I has been replaced by *Business Cycles: The Problem and Its Setting* (1927) and Part II on the statistical data is in process of being replaced by the work of the National Bureau of Economic Research to be published in a series of *Studies in Cyclical Behavior*. But, according to Mitchell, "there is no prospect that Part III will soon be replaced by a more thorough version, ..." This reprint will be welcomed by students of business cycles unable to secure copies of the complete earlier work, (1) because it "still has value as a realistic account of what goes on within a business cycle," and (2) because it marked the beginning of a distinctly new approach to the analysis of business-cycle problems and the most complete effort to 1913 to formulate cycle theory in terms of the characteristics and observed behavior of the economic system.

University of Tennessee PAUL W. BARNETT

The Dynamics of Industrial Democracy. By Clinton S. Golden and Harold J. Ruttenberg. New York: Harper & Bros., 1942. Pp. xxvi, 358. $3.00.

Here is a timely and somewhat unique addition to the literature of industrial labor relations. The book presents the case for union-management cooperation as the next great step toward the solution of our industrial problems and the achievement of industrial democracy. This goal, according to the authors, can be successfully achieved only through "the application of democratic methods in the settlement of grievances, adjustment of wage rates, negotiation of general wage increases, development of seniority rules, joint determination of other working conditions, and establishment of the union-shop form of recognition."

It is through these methods that industry can attain full productive efficiency, low unit costs, lower prices and thus a higher plane of living.

These conclusions are not the result of mere arm chair theorizing. The authors, both of whom are officials in the Steel Workers Organizing Committee, back up each principle with illuminating case histories taken from their experience which show that this form of union-management cooperation has actually been made to work in their industry.

Union-management relations, the authors point out, are now in a state of transition, emerging from the period of militant conflict to that of cooperation. This in turn, makes necessary a new and different type of leadership. The final goal is embodied in the authors' strong endorsement of a plan for integrated industrial planning on an industry-wide and nation-wide scale, directed by a national council made up jointly by representatives of the unions, management and the government.

The point of view taken in this book is admittedly partisan, but it is a remarkably fair-minded type of partisanship, tempered with a real understanding and recognition of the problems of management.

The reader may take issue with the authors on their uncompromising defense of such controversial subjects as seniority rules and the union shop, but one must admit that a strong practical case is made for both. The reviewer feels that the authors have overlooked one of the greatest obstacles to integrated nation-wide union-management cooperation which exists in the striking lack of such cooperation among union organizations themselves.

University of Arkansas GEORGE E. HUNSBERGER

Three Aspects of Labor Economics. By W. S. Woytinsky. Washington: Committee on Social Security, Social Science Research Council, 1942. Pp. xiv, 249.

Mr. Woytinsky has done a good job from two points of view: first from that of the labor economist who desires information regarding labor turnover, and second, from that of the statistician who is interested in methods of computing turnover. The book is brief, but the author's style and method of presentation has enabled him to present a surprisingly large amount of information.

Part I of the book deals with turnover figures for three periods, each of which is sharply differentiated from each of the others. The first was characterized by an extensive demand for labor, the second by increasing labor market rigidity, and the third by heavy unemployment.

Parts II and III are especially interesting in that they deal with two problems which have been the subject of a great deal of discussion in the last few years, namely, turnover of the unemployed and additional workers in depressions. Material relating to the unemployed is presented for the period before the depression, and this data is contrasted with the figures of turnover during the depression. The extent to which additional workers enter the labor market during periods of depression is presented in Part III. This information alone would justify the book. The statisticians especially will commend the author

for the inclusion of a liberal number of charts and diagrams and the inclusion of ample statistical tables both in the text and in the appendix.

University of Alabama BURTON R. MORLEY

The Needle Trades. By Joel Seidman. New York: Farrar & Rinehart, 1942. Pp. xiv, 356. $2.50.

This excellent study covers the experience of labor in the industries engaged in the manufacture of men's and boys' clothing, women's, children's, and infants' apparel, furs, millinery, and cloth hats and caps. The basic item of capital equipment in all of these industries is the power sewing machine, although hand sewing has not entirely disappeared. For the most part, production units are relatively small, even in the men's clothing divisions. Entrance into the industry is relatively easy, and firm mortality is high. Capital and managerial talent are highly mobile, and a basic element in the locational pattern of the industry is the search for cheap labor markets. The importance of style, especially in women's apparel, makes production planning difficult, and the persistence of the jobber-contractor relationship in some branches of the industry represents another element of instability.

The most significant fact about the garment unions is that they represent a stabilizing force in an industry characterized otherwise by instability. And the constant factor in the policy of needle trades unionism has been the creation of rules of competition for the industry. Although these rules have involved primarily wages, hours, and other elements of the labor bargain, the garment unions, to a much greater extent than most American unions, have entered areas usually reserved to management. These unions also have played a leading role in the struggle for social control of the more serious hazards that workers face in modern society.

The genuine merit of Dr. Seidman's book consists of his analysis of the basic factors that determine union policy in the needle trades, and his clear account of the development and achievements of the various unions that function in the industry. This was not an easy task, for most of the industry branches are large, and each presents, to some extent, separate problems for analysis. It is possible to quarrel with the emphasis given to some phases of the subject. On the whole, however, the book provides a well-balanced account of the rise and growth of an important group of unions.

The book contains a very useful bibliographical note, in addition to an index which has some deficiencies. This volume is the first in a series entitled "Labor in Twentieth Century America," and it is to be hoped that the subsequent volumes measure up to the initial venture.

Bureau of Labor Statistics
United States Department of Labor H. M. DOUTY

Elementary Social Statistics. By Thomas C. McCormick. New York: McGraw-Hill Book Co., 1941. Pp. x, 353. $3.00.

This new text is commended in its Preface to the attention of instructors in

sociological statistics because of its selection of techniques and illustrations applicable to sociology. Although the writing is simple and straightforward, there is a minimum of pedagogical devices and of approaches to the student point of view. The list of statistical techniques included is orthodox,—even a trifle old-fashioned. A chapter entitled "The Quantification of Social Data" gives an outline of attempts to turn qualitative into quantitative variables. The general emphasis is indicated by the devotion of a chapter each to statistical inquiry, the normal distribution, sampling error, the significance of differences, and non-quantitative correlation.

The derivations of formulas are few and on the proper plane, but are usually introduced too abruptly. The instructions and illustrations relative to graphing are uninspired. This is not a book which will raise the level of statistical instruction, nor will it increase the desire among the students for the "quantification" of social theory.

University of Kentucky EDGAR Z. PALMER

Methods of Correlation Analysis. By Mordecai Ezekiel. Second Edition. New York: John Wiley & Sons, 1941. Pp. xix, 531. $5.00.

The second edition is increased in size about one fourth, including one new chapter and several new sections and paragraphs within the chapters. The new chapter is entitled, "The Reliability of an Individual Forecast and of Time Series Analysis." The changes have not disturbed the excellent arrangement of this book, and have improved its usefulness as a teaching manual. The Ezekiel-Bean method of free-hand multiple curvilinear correlation is still given emphasis, along with the more orthodox mathematical curves. Several new developments of these methods have been added, but the proposal of a coefficient of "part correlation" has been dropped. Alternative and complementary methods, such as variance, factor analysis, cluster types, etc., have been given little or no attention.

One wonders why the controversy which has taken place around the Ezekiel methods has not incited him to expound more fully his scientific philosophy. The examples of analysis may illustrate but they do not define the purposes to which he would put the techniques of correlation. The difference between a generalization for the sake of immediate action, and a fundamental scientific contribution, is not brought out. The new section on "Universes, Past and Present," adds a little light, but yields no real understanding of the technical difficulties of delimiting a universe.

The book is unquestionably the best available manual on multiple correlation, both for the beginner and the experienced statistician. For philosophy we can always go back to Karl Pearson.

University of Kentucky EDGAR Z. PALMER

The Elements of Statistics. By Elmer B. Mode. New York: Prentice-Hall, 1941. Pp. xvi, 378. $3.50.

This book is one of the better of the many recent works which attempt to

clarify the subject of introductory statistics. The author succeeds very well in integrating the many different statistical techniques as well as describing clearly the actual manipulations and computations involved.

Proceeding from the very commendable viewpoint that the arithmetic of statistics cannot be separated too widely from its mathematical background, the author has cleared up many details of theory without making the book a mathematical treatise.

Of much interest also is the use which is made of the various types of graph paper especially the logarithm and probability paper. It is indeed gratifying to find a rather complete description of the uses of these methods which incidentally are in many cases not only sufficient but also by far the most practical approaches to certain types of problems.

This book can be readily used as a text for almost any classes which have a previous knowledge of high-school algebra, and the examples used in illustrating principles are drawn from a wide variety of subjects. In this writer's opinion the book may well serve as a reference too—the kind of text you can pick up and find in a moment just how to proceed in a given statistical analysis.

The author does not discuss the "analysis of variance" which is being used considerably at the present time but he does present the other fundamental operations of statistics in a clear and concise manner. The chapter on index numbers is particularly worthwhile.

Even to a conservative person, this book should represent a contribution in the field of presentation of ideas and will certainly not "collect dust" on a statistician's bookshelf.

North Carolina State College, Robert J. Monroe
University of North Carolina

Studies in Mathematical Economics and Econometrics. Edited by Oscar Lange and Others. Chicago: University of Chicago Press, 1942. Pp. 292. $2.50.

This is a volume of 20 essays by as many different authors, published by the Department of Economics of the University of Chicago in memory of the late Professor Henry Schultz. The first four chapters describe the personality and works of Schultz, while the rest contain scientific papers in the field indicated by the title. Perhaps the book may be oriented in its field by saying that it provides a good companion volume to Professor H. T. Davis' *The Theory of Econometrics.* While not as comprehensive or unified in structure it has considerable scope and it fills in some of the more important lacunae of the Davis book. The *Studies,* on the other hand, are not designed as an introduction because the exposition leans heavily on copious references to other works.

One cannot give even a brief statement of the contents of each chapter within the limits of a review; so a few remarks about details which caused most energetic reaction in the reviewer must suffice.

Professor William Jaffe gives a sympathetic interpretation of Walras' theory of capital, but concedes that his theory remains indeterminate, possibly because of "an unfortunate attempt to squeeze an essentially dynamic phenomenon into

a static framework." The reviewer has called attention repeatedly to this deficiency of the marginal productivity theory. (Cf. this *Journal*, Vol. IV, pp. 48 and 353.)

Professor Oscar Lange offers a clever mathematical paraphrasing of the Ricardo-Malthus disputation about Say's law, and reaches the conclusion that "Say's law precludes any monetary theory."

In his *Value and Capital* Professor J.R. Hicks was at some pains to "streamline" Alfred Marshall by showing that some of his doctrines could be regarded as special cases of the more general expositions of Pareto, Slutsky and others. One special case prominently treated by Hicks was that in which the marginal utility of income is assumed to be constant with respect to prices. Now comes Professor P. A. Samuelson in the present volume to show that this assumption "results in the empirical restriction of unitary income elasticities of demand," which is, of course, contrary to all budget data. Samuelson also concludes that the further Marshallian assumption of independence of utilities requires that all demand curves have unitary elasticity. This condition also is contrary to fact.

Professor J. Marschak outlines the problem of multicollinearity and also makes the trenchant observation that "the point about 'spurious correlation' is not the *existence* of some common cause but its *unsuspected* existence."

Other topics discussed in the book are department store cost functions, confluence analysis, the dynamics of commodity prices, and an interpretation of the fundamental law of value.

University of Florida MONTGOMERY D. ANDERSON

Agricultural Price Analysis. By Geoffrey S. Shepherd. Ames, Iowa: The Collegiate Press, 1941. Pp. viii, 402. $3.80.

This book is an excellent example of the use of economic theory and statistical techniques in the analysis of farm prices. There are 28 chapters divided into two parts. Part I is devoted to the analysis of price behavior, whereas Part II is an analysis of price-determining forces. The analysis throughout the book follows, for the most part, the generally accepted statistical techniques and economic concepts. The author, however, realizes, in what he writes, or by implication, that both theories and methods may be defective. For example, in his discussion of hedging and future trading, he is not trapped either by classical concept or the folderol of the trade. Again, he recognizes that competition is not perfect in the buying and selling of farm products, and he enumerates the effects of the absence of competition in farm prices.

In spite of the many excellent features of the book, there are some defects. One criticism relates to the overemphasis which the author gives to the "effect" of time on the behavior of prices. The discussion on hedging and future trading, although excellent, is somewhat foreign to the general thesis of the book. Then, too, the techniques used in determining elasticity are widely scattered throughout the book. It would appear desirable to concentrate this phase of the subject and then use the discussion as a base of reference, rather than to reopen the subject every time elasticity is mentioned. There are certain points relating to

the nature of farming which the author overlooks. Writing on the cyclic movement he states: "Their origins are not, however, as deeply rooted in the characteristics of supply and demand as the movements of all agricultural prices as a unit, discussed in the preceding chapter. They result chiefly from imperfect forecasting of prices on the part of producers" (page 68). It is questionable if under perfect forecasting farmers could or would adjust their production to anticipated prices. This might be true if the costs of production were all variable cash costs, but farming is characterized more for its fixed than for its variable cost.

A good set of definitions would be helpful to the reader. The concepts used appear at times to differ for different uses. For example, the definition of demand is not at all clear. Is demand a historical phenomena or does it represent the quantity of goods which may be purchased at all possible prices at a given time? Evidently, there is a difference but the author does not explain what it is. Historical data have been used to show the nature of a demand curve, but to say that such a curve represents demand for a given commodity is questionable.

North Carolina State College, G. W. Forster
University of North Carolina

Agricultural Finance—Principles and Practices of Farm Credit. By William G. Murray. Ames: Iowa State College Press, 1941. Pp. x, 328.

This book deals with agricultural finance from the standpoint of credit principles and lending institutions. The general design is thus unquestionably complete; the selection and treatment of the subject matter, however, are not altogether satisfactory.

Instead of the rather trivial discussion on the pros and cons of credit, one would rather see discussed, in the first chapter, the increased need for credit in agriculture and those characteristics of agricultural production that affect farm credit. There is no specific discussion of the problems of security for long-term loans and improvement credit. The examples used for payment plans are unfortunate: for the same loan, 66 installments are used for the Springfield plan and 69 for the standard plan. The last installment in the latter plan is only 17 per cent of the preceding ones. Neither conditional payments nor forbearance agreements are mentioned.

The second part—Lending Agencies—contains much valuable data and also has an exhaustive treatment of commodity loans and REA loans seldom to be found assembled in present-day textbooks on farm credit. However the critical appraisal of existing institutions is somewhat incomplete. The author hardly considers the special functions of a public lending agency, especially in connection with national agricultural policies. Moreover the significance of Congressional provisions for subsidizing interest charges is not adequately discussed.

In order to illustrate some of the adequacy of treatment of certain topics, a few examples will suffice. A whole chapter is dedicated to the Joint Stock Land Banks, but less than three pages are given to the Banks for Cooperatives, with

no description of their credit facilities. Again, why should the history of past foreclosure policies of Land Banks deserve a whole chapter when not enough space is given to present policies for disposing of foreclosed lands? In the chapter on Government Credit and Tenancy, the whole problem of production credit facilities available to tenants and croppers through PCA is neglected. Mention might also have been made of recent legislation (Arkansas, Oklahoma) for the assignment of state-owned lands to tenants.

To summarize: Several weaknesses in the selection and treatment of topics as well as the deficiency of critical approach seem to this reviewer to impair the value of *Agricultural Finance* as a textbook. Nevertheless the wealth of skilfully presented information and the all-embracing scope of the book make Murray's work a very valuable reference for the student of farm credit.

North Carolina State College, VICTOR B. SULLAM
University of North Carolina

Analysis of Highway Costs and Highway Taxation with an Application to Story County, Iowa. By E. D. Allen. Ames, Iowa: Bulletin 152 of Iowa Engineering Experiment Station, 1941. Pp. 129.

The ease with which our highway systems have been acquired has somewhat blinded the public to the problems incident to securing highways. These problems are both technical and economic. The technical problems have been efficiently solved by the many experts employed by highway commissions. The financial and economic problems, being more intangible, have proved more difficult. Speaking broadly, the questions can be classed as, first, how to find the needed funds; and second, how to disburse them efficiently.

The bulletin under present consideration is addressed to the latter group of problems. Treatment is divided into two distinct sections. The first reviews current theories and findings in the field of highway economics. The second section applies these findings to a specific case—namely, Story County, Iowa.

The author stresses the fact of diverging views on highway financing; i.e., the business viewpoint and the special government activity. These diverse positions account for the arguments on the propriety of including such items as depreciation, interest, and taxes foregone as proper elements of highway costs. He says, "It seems clear that business users (both commercial users and private business users) must pay full private business costs for the use of highway facilities if their pricing policies to prospective purchasers of their products or services are to be placed on an unsubsidized competitive basis with the pricing policies of competing forms of transport service, that is, if highway transport is not to be subsidized." His final conclusion is that adoption of the private-business cost concept as a test of adequacy of highway-user tax structures would promote an economic allocation of resources.

As to sufficiency of present tax income to provide highway services, he concludes that highway users are already paying enough to provide and maintain highways and create surpluses. Furthermore, the author feels that resistance to highway-user taxes will not develop enough strength to change that situation.

The very existence of these surpluses has, in turn, caused to develop the much debated problem of diversion of highway taxes to the general fund. The author defends diversion where the entire amount of fair highway returns are not required for the highway plant, but he condemns it when the user taxes are deliberately set in excess of a fair amount.

The second part of the bulletin is devoted to an application of general economic and financial methods specifically to conditions in Story County. This section is fully supported by tables abstracted from the county records. Much attention is paid to theories of distribution of costs among various groups of beneficiaries, and among various classes of vehicle users. In all cases, the conclusions are supported by the actual Story County figures. For this reason the bulletin is especially authoritative and useful. The information is much too abundant to warrant any attempt at summary here.

North Carolina State College, MARC C. LEAGER
University of North Carolina

A Theoretical Analysis of Imperfect Competition with Special Application to the Agricultural Industries. By William H. Nicholls. Ames, Iowa: Iowa State College Press, 1941. Pp. 384.

Agricultural economics has been influenced to a remarkably small extent by the rapid development of theoretical economics and analytical methods in the past decade. While the doctrine of monopolistic price determination was developed and the first steps taken towards dynamic analysis, agricultural marketing studies, for instance, remained descriptive. These studies consisted mainly of a rather unsystematic collection of data and discussions of marketing conditions for farm products, in general terms, lacking the exactness that modern analytical technique has made possible. They are, therefore, also more or less useless as a basis for reforms of the marketing system. By bridging the gap between economic theory and practical research in one important field, Dr. Nicholls has thus performed the role of a pioneer. Moreover, he has done it well. He has applied the concepts and technique of price analysis under imperfect competition to the industries processing and distributing agricultural products. He has shown how various forms of monopolistic concentration in the field of marketing affects the price-spread between consumer and producer. By focusing the analysis on the buying side of the marketing industries, the effect on farm prices of monopolistic price policies is revealed. Due to the lack of adequate statistical research, Dr. Nicholls' job has been a difficult one. Hypothetical data have been substituted for actual information in most cases. However, this is no fault, as Dr. Nicholls' purpose explicitly has been to present theoretical models for future statistical investigations.

In several instances, however, the treatment of the subject is too detailed and contains unnecessary repetitions. The discussions of empirical demand curves and of the cobweb theorem are almost reprints of material contained in a recent study by the same publisher. The whole last section on dynamics is incomplete and only loosely related to the main subject. As it adds little or nothing to our

knowledge, it could safely have been omitted. If the author, instead, had taken into consideration some aspect of modern location theory, his contribution would have been even more valuable.

North Carolina State College, GUNNAR LANGE
University of North Carolina

Forward to the Land. By Elmer T. Peterson. Norman, Oklahoma: University of Oklahoma Press, 1942. Pp. xvi, 283. $2.75.

Aside from a number of digressive polemics, this book is an able exposition of the author's theme of " 'soilways' rather than 'moneyways' " in rural life. Technological changes with their effects on mechanical science as well as the social structure have made a "back to the land" movement unrealistic. Today we must speak of going "forward to a new soil economy." Mr. Peterson would have farmers raise a number of cash crops; he would also have them buy many articles which could conceivably be produced or manufactured on the farm. But he believes that it is largely through diversification of production, with an emphasis on home consumption, that farmers are most likely to increase their real income. Farm income, he argues, is too commonly thought of as being income received rather than wealth retained. This and other aspects of "soilways" and their economic basis make good reading as well as much needed common sense. Unfortunately, the word "moneyways" acquires an increasingly emotional connotation throughout the discussion. It is used as a name-calling device in criticism of a wide variety of economic phenomena. The fundamental theme of "soilways rather than moneyways" for the family-sized farm remains wholesome and sound. But a good deal of Mr. Peterson's valuable argument for the soilways is lost in a welter of polemics directed against the existing order of a money economy.

J. N. "Ding" Darling in his foreword contributes the fruitful idea that nature's own balanced economy is one of vast diversification.

University of North Carolina MARTIN L. COHNSTAEDT

The Rice Economy of Monsoon Asia. By V. D. Wickizer and M. K. Bennett. Stanford University, California: Food Research Institute, 1941. Pp. xiii, 358. $3.50.

Civilizations like individuals tend to be self-centered. The wheat-eaters of the West may know much about their wheat, but until recently paid little attention to rice, the staff of life of 800,000,000 people crowded into Monsoon Asia. When global peace follows global war, we shall want to know more about these no longer "sedentary masses" of the East. In such a postwar study of the East this volume will prove most welcome.

Initiated almost 15 years ago by the late Dr. Alsberg, this study was kept alive by the interest which the Director of the Food Research Institute, Dr. Joseph S. Davis, maintained in its completion. The Institute was fortunate in securing in 1939 the services of Dr. Wickizer who had previously engaged in the study of rice. In the face of unusual difficulties inherent in most studies of

Asiatic economics, and greatly aggravated by the war, this author with the aid of Dr. Bennett, has produced a study which goes far to fill a major gap in economic literature.

There are 13 chapters which deal with the setting of the rice culture of Monsoon Asia; with the methods of cultivation and processing; with the marketing, foreign and domestic, of the crop, and with the place of rice in Asiatic diets; with price factors, changes, and relationships; with government intervention and price-control schemes; with consumption trends; and with the potentialities of rice expansion, extensive as well as intensive. In the appendix there are more statistics on rice than have ever been assembled in one place before.

The book is well supplied with tables, diagrams, and maps which greatly aid in the study of the wealth of material presented. The Food Research Institute of Stanford University once more has earned the gratitude of economists interested in fundamental aspects of the food economy of the world.

University of North Carolina — Erich W. Zimmermann

Corporate Executives' Compensation. By George Thomas Washington. New York: Ronald Press Co., 1942. Pp. xii, 519. $7.00.

The author is a teacher and practitioner of law who has assisted in litigation involving bonus plans of compensation and has helped in preparing compensation contracts for executives. The book has been written from the point of view of a lawyer. It is not, however, wholly a legal treatise; nor is it strictly a book in the field of economics. There is some economic discussion, including a short outline of the arguments for and against liberal compensation to executives, a brief digest of existing studies concerning the amounts of compensation paid and occasional statements of the value of specific plans of compensation as incentives for executives. Primarily it outlines the main provisions of most profit-sharing, stock-bonus, pension and other plans of executive compensation and discusses the legal, tax and practical business considerations which a lawyer must take into account when advising his client as to the particular form of contract, agreement or amendment to the by-laws which will prove most satisfactory.

Among the topics considered are the advantages of trust funds for pension and bonus schemes, pre-emptive right of stockholders to share in stock bonuses and stock options, taxation of the profits of executives receiving options to purchase stock below the market price, control over such plans by governmental agencies, unwillingness of the courts to determine the reasonableness of executives' compensation and their willingness to give verdicts against specific methods of computing such compensation and against the power of executives to fix overgenerous amounts of compensation for themselves.

The final chapters deal with a matter on which puzzled and uninformed stockholders have been asked to vote frequently in recent months, namely, amendments to by-laws reimbursing directors and officers for expenses and liabilities arising out of litigation to which they have been a party because of their official position. The author seems to believe that directors and officers may not

benefit greatly from such amendment of the by-laws. He presents evidence to show that the courts have exhibited a willingness in the past to approve reimbursement when the judgment has been in favor of the director but questions their willingness to ratify agreements to reimburse directors who have been held guilty of some degree of negligence or lack of good faith.

The book is well organized, is clearly and concisely written and gives evidence of long and careful study of such original sources as corporate agreements and by-laws and decisions of courts and other governmental agencies.

University of Tennessee THEODORE W. GLOCKER

The Development of University Centers in the South; Papers Presented at the Dedication of the Joint University Library at Nashville, Tennessee, December 5–6, 1941. Edited with introduction by A. F. Kuhlman. Nashville: The Peabody Press and The Vanderbilt University Press, 1942. Pp. 128.

In this volume Bishop of Michigan, Branscomb of Duke, Kuhlman of Nashville, Wilson of Chicago, Stahlman of the Navy, Brown of Iowa State, as librarians show that of all resources in research and teaching the library is the one most common to all enterprises and at the same time the one most readily lending itself to consolidation, avoidance of reduplication, and wide, economical, regional use. White of Emory, McCutcheon of Tulane, Garrison of Peabody, Carmichael of Vanderbilt, as University administrators discuss the need for this region to gather its resources, to share in a division of scholarly labor, and to make every resource count. Lester of the Carnegie Corporation and Mann of the General Education Board, confirm and deepen a point of view long held by the educational foundations; namely, that the institutions of higher education must forget economic rivalry in the face of the need for pooled resources to meet the needs of the South as one of the great regions of America.

The papers are each brief and well thought out. The effect is practically informative and helpful in that nobody is theorizing about Utopia. Each man here celebrating an act of educational statesmanship at Nashville has himself labored and produced fruits of statesmanlike vision at Tulane, in Atlanta, Nashville, in North Carolina, in Georgia, and in the persons of Lester and Mann, Bishop and Wilson, in the nation. It is a good handbook of progress.

University of North Carolina R. B. HOUSE

STATE REPORTS

ALABAMA

The state of Alabama is now experiencing a genuine boom, the greatest industrial boom from the viewpoint of economic statistics in its recent history. The index of industrial activity prepared by the Bureau of Business Research of the University of Alabama reached in March the high point of 180. An index computed on a comparable basis for the nation as a whole stood for the same month at only 169. The Alabama index of industrial activity, using 1935–39 as the base period and adjusted for seasonal variation, descended to 42, its lowest point, in 1932, to 75 in 1938, and last crossed its base line of 100 in 1939.

Electric energy consumption for industrial purposes at 242 registered the highest of any series in the composite index. Other series accounting for the rise in the index of industrial activity were: cement production, 188; coal production, 171; cotton consumption, 179; and pig iron production, 164.

Although recent months have shown relatively small consistent gains over the high point of 1941, indications are that the enlarging of plant capacities is preparing the way for a still greater expansion in industrial activity. The index number for building contracts awarded in March was 543, and for cement consumption, 273. Other indexes of economic activity were: bank debits, 209; department store sales, 169; and gasoline sales, 141.

The number of workers on pay rolls was 24.6 per cent higher than in March, 1941, and the amount of pay rolls 63 per cent higher. The lower extreme in economic activity is represented by automobile sales at 92 per cent less than in March of a year ago, savings and loan association mortgage loans 25.4 per cent and life insurance sales 5.7 per cent less. Indexes in general, however, show substantial gains both over a year ago and over the previous month.

University of Alabama E. H. ANDERSON

FLORIDA

The war in general and restrictions upon the use of automobiles in particular are resulting in rather serious economic problems in the state. The state treasury has already been affected and undoubtedly will have to face even more adverse circumstances. Many of the improvements in the state's fiscal position brought about by the work of the 1941 General Assembly have at least temporarily disappeared. The 7 cent tax on gasoline and the $15 license fee for most cars together have produced a large part of the total revenues of the state. Six cents of the gasoline tax is applied to servicing county highway bonds and to constructing and maintaining highways. The seventh cent of this tax is divided equally between the public school fund and the general revenue fund while all of the revenue from the sale of automobile licenses goes to the public school fund. The result of the drastic curtailment of the use of automobiles upon these funds is obvious. Governor Holland has announced that he sees no need for calling a special session of the General Assembly; that the state would

be able to meet its obligations throughout this year and that the problems arising from reduced revenues would have to be faced by the 1943 Assembly.

Not only is the public economy drastically affected but also one of the most important, if not the most important, industry in the state, namely the tourist industry, is faced with a virtual shut-down for the duration. The 1941–1942 season was poor but undoubtedly will be the best for the duration of the war. The economic well-being of large sections of the state are so closely tied up with the tourist industry that unless the facilities of this industry can be converted to the prosecution of the war, widespread financial and economic suffering is bound to arise. That there is some possibility of such a conversion taking place is evidenced by the United States Army Air Corps taking over some 90 hotels and other facilities in the Miami area for housing a training school. A few more such projects will greatly mitigate the effect of reduced tourist expenditures upon the owners of hotels and other facilities devoted to the tourist trade. However, at present, there seems to be some decided possibility of a war depression in the state.

University of Florida JOHN B. MCFERRIN

KENTUCKY

Repeal of Kentucky's long standing constitutional limit of $5000 on the annual salaries of public officials is to be submitted to the voters of the state at the November election. Some proponents of the measure felt that it would meet with better favor from the electorate if some other absolute limit were established rather than outright removal of all limitation as many electors do not trust the legislature to deal with such matters. The holding by the state's highest court that the officials of state schools were state officials within the meaning of the constitutional clause helped crystallize legislative action to submit the matter to the people.

Opponents of the measure held that the law enacted by the 1942 session of the legislature permitting the Court of Appeals to employ as court commissioners judges who retire from the bench after more than eight years of service was in reality a pension in disguise since there was little doubt that the Court would employ all such judges who wished employment and there was no limit upon the number that could be so employed. The salaries are fixed at $5000 annually.

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Another measure enacted by the lawmakers limited the warrant indebtedness of the state to $500,000. This was something in the way of locking the stable door after the horse had been stolen, and, contrary to the analogue, recovered. The constitutional limit of $500,000 on state debt without consent of the voters had been detoured some years ago, through a holding by the courts that warrants were not debts in the constitutional sense, so successfully that the debt had risen to about $26,000,000. The state is to be congratulated on having wiped out this debt since 1935.

The Court of Appeals has finally upheld the state's Liquor Fair Trade Act of 1940. The law, which requires arbitrary mark-ups of 15 and 33⅓ per cent by wholesalers and retailers respectively, was held to have "had a stabilizing effect upon the industry, done away with ruinous competition, resulted in less consumption of intoxicants by the public (sic), and caused liquor to be sold in more wholesome surroundings." The Court admitted that such regulation in any other industry would be discriminatory, arbitrary and unreasonable.

The high court also refused to reconsider its action approving out-of-state travel expenses of state officials.

Court action has been instituted by the state to collect corporate income taxes from the city of Cincinnati on profits accruing to the city from its railway known as the Cincinnati, New Orleans, and Texas Pacific Railway. The road, which connects Cincinnati and Chattanooga, is leased by the Southern but owned by Cincinnati. The case may be appealed.

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Sharp increases in the population of many of the counties in the coal fields and marked decrease in the relative and absolute position of many of the agricultural counties brought the need for a sweeping rearrangement of legislative districts. A measure intended to accomplish this end was enacted in April by a special session of the legislature after a bitter and acrimonious fight. While far from the best measure that might have been devised, it is a marked step in the fulfillment of the democratic process.

University of Kentucky RODMAN SULLIVAN

LOUISIANA

The College of Commerce of Louisiana State University conducted its second state-wide personnel conference in the past three years on the University campus at Baton Rouge on May 2, 1942. The conference, which had for its theme "The War and Industrial Personnel Problems," was attended by over a hundred persons actively engaged in personnel work during the present war emergency. Emphasis was placed both in the prepared papers and in the panel and open discussions upon a practical approach to the actual problems confronting personnel men in Louisiana industry today. Among the topics discussed were wartime labor supply, wartime training, the deferment of skilled workers, the protection of plant and personnel, the War Labor Board and government intervention in labor disputes, and the technique of collective bargaining.

Speakers at the conference included Mr. Henry Le Blanc, Louisiana director of the United States Employment Service; Miss Violet O'Reilly, director of the Rabouin Vocational School (New Orleans); Mr. Max Yarborough, state supervisor for National Defense Training; Major J. Lester White, state occupational advisor of Selective Service; Mr. Robert A. Guerin of the Federal Bureau of Investigation; and Mr. Ralph T. Seward, associate public member of the National Labor Board, Washington, D. C.

Proceedings of the conference will be published by the Bureau of Business Research of Louisiana State University.

Most lines of business in Louisiana report gains for April over the corresponding month of 1941, although the number of declines is greater than in March. After adjustment for the seasonal factor, department store sales showed a gain of 14 per cent, freight carloadings an advance of 16 per cent, and bank debts a rise of 32 per cent. The prolonged upward movement in these three series have brought them to a level 40 to 60 per cent above the 1937–39 average. Industrial pay rolls in Louisiana during the month of April were 86 per cent larger than a year ago and more than twice as large as in the period 1937–39.

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Increased interest in domestic price movements and the rising cost of living focuses attention upon the study of the cost of living in the principal cities of Louisiana, recently undertaken by the Bureau of Business Research of Louisiana State University, with the cooperation of the United States Bureau of Labor Statistics. The University Bureau will supplement in other urban centers of the state the work of the federal government which is confined to New Orleans. Quarterly cost-of-living indexes will be regularly prepared for each city on the March 15 cycle. The collection of the initial data for Baton Rouge and Shreveport has already been completed.

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Business in Louisiana during the first five months of 1942 was substantially better than in the same period of 1941. The greatest increases in dollar volume developed in the wholesale trades, where higher prices were undoubtedly a material factor. The effects of the war upon the economy of the state are clearly discernible in many business series. Building material sales, for example, were 12 per cent less in the first five months of 1942 than in 1941 and the value of building permits reported over the state dropped 28 per cent. The shortage of rubber accounted in part at least, for the 27 per cent fall in tourist traffic and the curtailment of automobile production for civilian use has resulted in a decrease of 92 per cent in new motor vehicle registrations. Heavy purchases of life insurance in the months immediately following the outbreaks of the war were primarily responsible for the 20 per cent increase in life insurance sales thus far this year. It is to be expected that even greater changes will occur in months to come.

Louisiana State University ROBERT W. FRENCH

MISSISSIPPI

The first four months of 1942 brought continued improvements in tax collections for those taxes collected by the Mississippi State Tax Commission. Reports of the Commission show that $8,443,022 was collected in the first four months of 1942 as contrasted with $5,616,942 collected in the corresponding period in 1941. Of the several taxes collected by the Commission the principal revenue yielders are the sales, income, tobacco, beer and wine, admission, and timber severance taxes. All of these showed important gains for the first four months of 1942 over the first four months of 1941. For the sales tax, which

annually yields around 40 per cent of the state's general fund revenues, the gain was 31 per cent. Income tax collections for the first four months in 1942 were more than double what they were for the corresponding period in 1941. In a report issued last December, the state Budget Commission estimated that there would be a general fund cash balance of $3,642,000 at the close of the 1940–42 biennium. This amount is carried over to help take care of appropriations for the 1942–44 biennium.

Encouraged by the increase in general fund revenues, the state legislature at this year's session made drastic reductions in the tax rates on income and general property. The new rates became effective with the beginning of the 1942–44 biennium on July 1. For the first $2,000 of taxable income the rate was reduced from 3 per cent to 1½ per cent, while lighter reductions were made in the rates on larger incomes. The rate on general property, which has been 6 mills, was limited to 4 mills. Allowing for these reductions, and for increases in appropriations amounting to $3,197,606, the state Budget Commission has estimated that there will be a small general fund deficit at the close of the next biennium.

At the end of April, 1942, it appeared that the war rationing of tires and automobiles had begun to affect seriously collections from the gasoline tax. The yield for this tax was $213,736 less for March and April, 1942, than it was for March and April, 1941. The major portion of the proceeds from this tax goes into the state's special fund for highways, while the remainder goes to the counties for county roads. Since the state itself must meet principal and interest payments on road bonds totaling approximately $55,000,000, the situation might become critical if gasoline tax collections continue to decline.

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The Delta Council, whose membership is composed of businessmen and farmers residing in the Yazoo-Mississippi Delta, held its seventh annual meeting at Cleveland, Mississippi, on May 8, 1942. The meeting was addressed by United States Assistant Attorney General Thurman Arnold and by Mr. Hugh M. Comer, vice-president of the Avondale Mills, at Sylacauga, Alabama. Mr. Walter Sillers, of Rosedale, Mississippi, was elected president of the Council for next year. The activities planned by the Council for next year include investigations of the supply of labor in the Delta area; the giving of assistance in the placement of needed workers; encouragement of new uses for cotton; and the making of plans for postwar economic adjustment.

University of Mississippi WALTER H. BENNETT

NORTH CAROLINA

War production is dominating business and industry in North Carolina as in other states and is causing many dislocations as well as the development of some new industries and the expansion of old ones. This makes comparisons with former years or even with the past quarter more or less meaningless. Taken on the whole, however, business activity continues at a pace well above that for the same period of 1941 and incomes for most classes are moving upward.

It is too early to foresee what ultimate effect the present attempts to curb the upward spiral of prices and incomes will be, especially on non-durable consumers' goods, but increased consumer incomes together with real or anticipated shortages of goods has caused a general price rise during the first quarter of this year accompanied with an expansion in retail sales volume.

Bank debits in the seven largest cities declined during January and February but moved up sharply in March. This was caused by federal income tax payments to a large extent. Debits for the quarter were well above those for the same period of 1941.

Passenger car sales provided the darkest spot in the whole picture. There was a sharp drop from January through March and sales for the quarter were 90 per cent less than they were during the same quarter of 1941.

Building construction declined during the month of February but for the period as a whole there was a slight increase with residential building accounting for the major part.

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Industrial production continued at a rapid pace especially in those industries working on war orders. Change-over from consumers' goods to war production is gradually catching up with curtailments in production due to shortages of materials.

The cotton textile industry is striving to supply government orders for hundreds of millions of yards of cloth, along with increased consumer demand. Cotton consumption dropped slightly in February due to the fact that there were fewer working days but in March the all-time high set in October of last year was bettered with a total of 246,932 bales being consumed.

Deliveries of rayon yarn to domestic mills continued to increase along with increased production of silk substitutes. Lumber production is growing but cannot fill the demand of both the government and civilian consumers. January was the record month in the history of tobacco manufacture but the trend followed seasonally down in February and up in March. North Carolina has produced approximately 60 per cent of the sheet mica in the United States for the past several years. With the supplies from India and Madagascar curtailed the government is pressing for even greater output of this vital war material. War production priorities are making large inroads on furniture production in North Carolina and prices of all forms of furniture have risen materially.

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State and federal agencies are encountering some resistance to the change in policy toward agriculture since our entrance into the war. Farmers who were previously encouraged to restrict production are now urged to increase production. The government has requested cotton farmers to plant their full acreage allotments. Not only is there a need for more cotton, but there is a growing demand for cottonseed oil and cooking compounds.

North Carolina farmers are responding to the national urge for greater food production. Farm Security Administration reports that farm plans indicate

increases ranging from 36 per cent increase in garden acreage to 160 per cent increase in peanut acreage. Special items include planned increases in the production of milk 44 per cent, eggs 74 per cent, hogs 100 per cent, beeves 176 per cent, canned goods 73 per cent, wheat acreage 80 per cent and an increase in permanent pastures 64 per cent.

An important agricultural activity often overlooked is the growing of timber on the farm in which North Carolina leads all other states. In a given year the value of products cut for farm use was $15,594,283 and for sale $8,686,022. Final summaries of cash farm incomes for the year 1941 were not available when this report was made for the last issue of the *Journal*. Summary figures indicate an increase in total farm income of 40.2 per cent over that of 1940 made up of increases in income from crops 46 per cent, from livestock and livestock products 31.3 per cent, and a decrease in government payments of 2.7 per cent.

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There was very little change in either employment or pay rolls during the first quarter of 1942. However, the tendencies were for the amount of employment to decrease, hourly rates of pay to increase, average weekly earnings to increase and total pay rolls to increase slightly.

The Division of Standards and Inspection of the North Carolina Department of Labor made routine inspections of 998 firms employing 49,512 employees. Principle violations of the state labor laws were the provisions relating to child labor and safety codes while approximately 10 per cent of all violations were of the hours law.

The Department of Labor inspections to determine compliance with the Federal Fair Labor Standards Act brought some important violations. Voluntary restitution payments amounting to $174,686.90 were made to 6,290 workers during the first quarter of the year.

North Carolina State College, T. W. Wood
University of North Carolina

SOUTH CAROLINA

According to the Bureau of the Census, retail sales of independent stores in South Carolina increased nearly 20 per cent in 1941 over 1940. The Bureau's figures cover 34 states, of which only 7 reported larger relative increases than South Carolina. For no month during 1941 was the increase in retail sales over the corresponding month of 1940 less than 7 per cent and one month (April) it was 30 per cent greater than for the corresponding month of the previous year.

In view of the fact that the war spending program did not get under way in South Carolina until late in 1941, these increases in retail sales reflect substantial and solid industrial growth.

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Newberry county, South Carolina, has been selected as one of approximately 12 in the United States in which an experimental medical care program is to be

undertaken. The plan is sponsored by the Newberry County Agricultural Planning Committee and has the approval of the county medical association. It calls for payment by farmers into a cooperative fund of a small per cent of their cash receipts. This fund in the experimental stages of the project will be supplemented by a small grant and is to be used to pay the expenses of general medical, dental and special services, including drugs and hospitalization of the participating farmers. The farmer will be allowed to select the physician or specialist of his choice.

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The state Supreme Court, in a recent decision, has denied the right of the South Carolina Public Service Authority (Santee-Cooper) to purchase properties of the Lexington County Power Company and the South Carolina Gas and Electric Company. The Authority, while contending that its power to acquire these properties was implied in the Act of 1934, had sought an amendment during the last session of the legislature which would clarify the issue. The General Assembly, however, refused to enact the desired legislation. The Authority then announced its intention to acquire the additional properties at a cost of approximately $40,000,000 under the original Act. A temporary injunction was secured, however, to halt the purchase and this, by the recent decision of the highest state court, has been made permanent.

The court in ruling on the case held that the South Carolina Public Service Authority possessed only such powers as were specifically stated in the 1934 Act, and that this Act did not provide for the purchase of the properties in question. It was further strengthened in its decision by the fact that the General Assembly having been requested to provide specific authority had not done so.

Clemson Agricultural College G. H. Aull

TENNESSEE

Some idea of the extent to which Tennessee's industry has been stimulated by defense and war activities may be had from the summary data provided by the Unemployment Compensation Division of the state Labor Department. The volume of employment in the covered establishments in October, 1941, was larger by 38 per cent than it had been in January, 1940. Growth of employment in the construction field was particularly marked, i.e., a jump from 10,500 in January, 1940, to 41,400 in November, 1941. Employment in manufacturing industries increased from 152,000 in January, 1940, to 201,800 in October, 1941. Important increases here were in iron and steel, chemical industries, aircraft parts and ordnance.

Pay rolls have increased even more rapidly. The total wage outlay in the covered establishments was 43 per cent greater in the calendar year 1941 than it had been in 1940. It will be understood that this item probably reflects a trend toward full-time employment and a longer work week, as well as other factors such as shifts in employment towards the higher-wage industries, and finally, changes in the wage rates paid on a given job. Of great importance for

the success of the war effort is an observable tendency toward the continuous production system, or 24-hour operation of plant. In Tennessee, as in other states, this practice is still far from the general rule; yet industrial observers have noted definite progress. In Nashville, for instance, the Nashville Bridge Company which is producing mine sweepers operates on the continuous system, as do a number of the machine shops.

Priorities unemployment has occurred to some extent, within the general framework of expansion. In the early months of 1942 claims for unemployment compensation in Tennessee showed a definite rise. Layoffs due to priorities and conversions to war industry appeared to be one factor in this rise. Other important factors, however, were found in the completion of certain construction projects, in seasonal slacks, and also in the fact that the 1941 pick-up had made many new workers eligible to qualify for benefits. At the present writing, unemployment compensation claims are again declining, and the compensation system is building up substantial reserve funds for future contingencies.

Construction of new aviation bases is now adding to the tempo of building activity. A new bomber base in Smyrna, built for a total personnel of 10,000, is scheduled for completion about mid-June. In Nashville, an Air Crew Classification Center, for the accommodation of 7,000, is under construction and is expected to be completed in July. Contract for a ferry bomber base has been awarded to Memphis.

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An election held by the National Labor Relations Board at the Tennessee Chemical Company, subsidiary of Armour and Company, resulted in representation by the C.I.O., by a vote of 163 to 12.

Fisk University ADDISON T. CUTLER

VIRGINIA

The General Assembly at its recent meeting abolished the original Unemployment Compensation Commission of three men and provided for a single administrative head to be known as Commissioner. The Governor expressed the belief that this change will lead to greater efficiency in the administration of the Act.

The General Assemby alo amended the women's hour law to enable the Commissioner of Labor to issue during the emergency special permits to firms engaged in war work that will enable them to work women employees 10 hours a day and 56 hours in any one week. All permits must be granted subject to such terms and conditions as are necessary to safeguard the health, efficiency and general well-being of such workers or to prevent the abuse of such permit.

The Workmen's Compensation law was liberalized to some extent. After July 1 of this year the law will apply to all employers of more than 7 workers instead of 11 as formerly. Higher benefits were provided in case of injury or accidental death. In case of total disability the worker will be paid 55 per cent of his average weekly wage but not more than $18, nor less than $6 a week for a maximum period of 500 weeks. In case of partial disability, the employee must be paid a weekly compensation equal to 55 per cent of the difference be-

tween his average weekly wages before the injury and the average weekly wages which he is able to earn thereafter, but not more than $18 a week for a maximum of 300 weeks from the date of the injury.

In case death results from an injury within 6 years the new act provides for the payment to the dependents of the employee a weekly sum equal to 55 per cent of his average weekly wages, but not more than $18 nor less than $6 for a period of 300 weeks. The total sum is not to exceed $6,000 from the date of the injury and burial expenses not exceeding $150. The total compensation payable under the Act is not to exceed in any case the sum of $7,000.

The General Assembly also provided for the appointment of a commission to study the problem of occupational diseases and to report on the desirability of including them under the Workmen's Compensation Act.

University of Virginia GEORGE T. STARNES

PERSONNEL NOTES

Clark Lee Allen has given up his position as instructor in economics at Duke University to accept a position as economist in the Southern Regional Office of Price Administration, and will be located in Atlanta.

E. H. Anderson of the University of Alabama has been appointed correspondent for Alabama for *The Southern Economic Journal* in place of H. H. Chapman, who has resigned.

Karl E. Ashburn has resigned his position as head of the Department of Economics and Business Administration of Southwestern Louisiana Institute to go with the Civil Service Commission. He will work out of the New Orleans office.

Roy Ashmen, instructor in accounting and statistics at Louisiana State University, has been called into the Naval Reserve with the rank of lieutenant and stationed in Jacksonville, Florida.

Rollin S. Atwood, professor of economic geography at the University of Florida, has been granted a leave of absence to accept the position of junior economic analyst attached to the American Embassy in Quito, Ecuador.

John S. Bickley, instructor in economics, University of Alabama, has resigned to join the armed forces. He is stationed at present at the Air Corps Technical School, Keesler Field, Mississippi.

Gladys Boone has been appointed chairman of the newly established Division of Social Studies at Sweet Briar College.

Daniel Borth, professor of accounting in the College of Commerce and auditor of Louisiana State University, was called into the Army in February with the rank of major in the Quartermaster Corps. He is stationed in Washington, D. C.

O. H. Breidenbach has accepted a position as assistant professor of economics and business administration at Southwestern Louisiana Institute. He will also continue his part-time teaching duties at Tulane University.

Horace B. Brown, Jr., who this year has been serving as acting dean of the School of Commerce and Business Administration at the University of Mississippi, has been promoted to the position of dean.

Wayne Burnam, formerly of the University of Texas, has joined the staff of the Department of Economics and Business Administration at Southwestern Louisiana Institute as assistant professor of accounting.

James E. Chace, associate professor of economics and realty management at the University of Florida, has resumed his duties after a year's leave of absence.

Charles E. Crouch, head of the Department of Business Administration at Vanderbilt University has arranged with the United States Office of Education for ESMDT courses (Engineering, Science, Management Defense Training) at Vanderbilt in the following subjects: industrial accounting, production management, transportation, and public utilities.

W. T. Ferrier, associate agricultural economist in the Department of Agricultural Economics and Rural Sociology at Clemson College, has been granted a leave of absence during which time he will serve as consultant in the Office of Price Administration.

Roy L. Garis, professor of economics at Vanderbilt University, has been appointed director of education for the Nashville, Chattanooga and St. Louis Railway.

Ralph C. Hon has had his leave of absence from Southwestern University extended another year and will continue as visiting professor of economics at Duke University.

M. H. Hornbeak, formerly associate professor of money and banking at Louisiana State University and lately vice-president of the Louisiana National Bank, Baton Rouge, Louisiana, was called into the Army in March with the rank of lieutenant in the Quartermaster Corps. He is stationed in Washington, D. C.

M. K. Horne, Jr., director of the Bureau of Business Research at the University of Mississippi and director of research for the National Cotton Council, has been serving the Board of Economic Warfare as consultant on cotton.

C. C. Humphries, professor of geography and teacher of economics at Memphis State College, has resigned to take a post with the Federal Bureau of Investigation in Washington, D. C.

Charles Jamerson, graduate of the University of Arkansas, will teach economics at Memphis State College during the coming academic year.

Louis Johnson, Jr., will return this fall to his former post as head of the Department of Business Administration at Tennessee Polytechnic Institute. During the past academic year Professor Johnson has been head of the Department of Business Administration at Tennessee State Teachers College.

James M. Keech of Duke University has obtained a leave of absence and is now serving with the Civil Service Commission in Washington, D. C.

Albert S. Keister of the Woman's College of the University of North Carolina is lecturing on economics at the Graduate School of Banking conducted each June at Rutgers University by the American Bankers Association.

Marshall D. Ketchum of the University of Kentucky will teach in the University of Chicago during the 1942 summer session.

J. D. Kinard, assistant agricultural economist at Clemson College, has been granted a leave of absence during his services in the Army.

Joseph N. Leinbach has been promoted to professor and head of the department of Economics and Business Administration at the University of Tampa.

W. Porter McLendon, professor of economics at the University of Tampa, has been granted a leave of absence to take a position with the Bureau of Foreign and Domestic Commerce in Washington.

James W. Martin of the University of Kentucky has been on partial leave during the academic year to work with the office of the Secretary of the Treasury on the subject of coordination of federal, state, and local taxation.

W. H. Mills, a member of the staff in the Department of Agricultural Economics and Rural Sociology at Clemson College, died on March 29, 1942.

Edgar Z. Palmer of the University of Kentucky will teach statistics in the first summer session of the University of North Carolina.

G. Etzel Pearcy, assistant professor of economic geography, University of Alabama, has been granted leave of absence to act as civilian instructor in meteorology at the Randolph Field Ground School.

W. J. Phillips of Southwestern Louisiana Institute was elected chairman of the Commerce Section of the Louisiana College Conference.

Earle LeRoy Rauber of Alabama Polytechnic Institute has been appointed an editor of *The Southern Economic Journal*, replacing T. C. Bigham of the University of Florida, who resigned.

Ernest Riley, assistant agricultural economist in the South Carolina Experiment Station, reported for active duty as an officer in the Army on May 14. He has been granted a leave of absence.

B. R. Risinger, instructor in business administration and assistant to the dean of the College of Commerce at Louisiana State University, was made purchasing agent of the University on April 5.

W. R. Roane, instructor in accounting and assistant auditor of Louisiana State University, was made auditor of the University to take the place of Daniel Borth.

L. E. Smith has resigned his position as assistant professor of accounting at Southwestern Louisiana Institute to enter the employ of the Navy.

Robert S. Smith of Duke University has been awarded a Guggenheim Fellowship and is spending the summer in Mexico studying the history of the Mexican guild merchant.

W. A. Tolman of the University of Kentucky is on leave to accept the position of price analyst for the Atlanta office of the Bureau of Labor Statistics.

Paul F. Wendt, professor of economics at Maryville College, has received an appointment as economic industrial analyst with the Materials Branch of the War Production Board.

E. K. Zingler, of Louisiana State University, is on leave until September, 1942, and is with the National Resources Planning Board in Dallas.

BOOKS RECEIVED

Degrees of Mortality of Mankind. By Edmund Halley. Baltimore: Johns Hopkins Press, 1942. Pp. vi, 21. $1.25.

Democracy and Free Enterprise. By Thurman W. Arnold. Norman: University of Oklahoma Press, 1942. Pp. 81. $1.00.

Dimensions of Society. By Stuart Carter Dodd. New York: Macmillan Co., 1942. Pp. ix, 944. $12.00.

Department Store Cost Functions. By Joel Dean. Chicago: University of Chicago Press, 1942. Pp. 32. Reprint.

Economic Development in Europe. By Clive Day. New York: Macmillan Co., 1942. Pp. xxii, 745. $4.00.

Economic Principles in Modern Practice. By Henry Raymond Mussey and Elizabeth Donnan. Boston: Ginn and Co., 1942. Pp. viii, 840. $4.00.

Economic Principles in Practice. By Bruce Winton Knight. New York: Farrar & Rinehart, 1942. Pp. xiv, 659. $3.50.

The Economics of Public Utility Regulation. By Irston R. Barnes. New York: F. S. Crofts & Co., 1942. Pp. xxiv, 952. $5.00.

The Economic Reconstruction of Lithuania after 1918. By Anicetas Simutis. New York: Columbia University Press, 1942. Pp. xiii, 148. $1.50.

An Examination of Basic Principles of Comparative Forest Valuation. By Roy B. Thomson. Durham, North Carolina: Duke University School of Forestry, 1942. Pp. 99. Paper.

Farm-Mortgage Credit Facilities in the United States. By Donald C. Horton and others. Washington: United States Government Printing Office, 1942. Pp. vii, 262. $0.55.

Financing the War. By Robert Warren and Others. Philadelphia: Tax Institute, 1942. Pp. ix, 357. $2.50.

Guide to the Manuscript Collections in the Archives of the North Carolina Historical Commission. Prepared by the North Carolina Historical Records Survey Project, Division of Community Service Programs, Work Projects Administration. Raleigh: The North Carolina Historical Commission, 1942. Pp. v, 216. $0.25.

Highway Economics. By Harry Tucker and Marc C. Leager. Scranton, Pennsylvania: International Textbook Co., 1942. Pp. x, 454.

Inventory Valuation and Periodic Income. By Carl Thomas Devine. New York: Ronald Press Co., 1942. Pp. vii, 195. $3.00.

Jewish Emancipation. By Raphael Mahler. New York: The American Jewish Committee, 1941. Pp. 54. Paper.

Management's Adjustment to the Changing National Economy. Edited by William N. Mitchell. Chicago: University of Chicago Press, 1942. Pp. viii, 61. $1.00.

Millhands and Preachers. By Liston Pope. New Haven, Connecticut: Yale University Press, 1942. Pp. xvi, 369. $4.00.

Modern Corporation Finance. By William H. Husband and James C. Dockeray. Chicago: Richard D. Irwin, 1942. Pp. viii, 853. $4.25.

Organization for Kentucky Local Tax Assessments. By James W. Martin and Glenn D. Morrow. Lexington: University of Kentucky, 1941. Pp. v, 85. Paper.

Our Modern Banking and Monetary System. By Rollin G. Thomas. New York: Prentice-Hall, 1942. Pp. xxiii, 812. $4.00.

Personnel Management. By Walter Dill Scott and Others. New York: McGraw-Hill Book Co., 1941. Pp. xii, 589. $4.00.

Social Security Yearbook. By Federal Security Agency. Washington: Federal Security Agency, Social Security Board, 1941. Paper. $0.70.

The Theory of Incidence of Sales Taxation. By John F. Due. New York: King's Crown Press, 1942. Pp. vi, 257. Paper $2.25.

The Unfinished Task. By Lewis Corey. New York: The Viking Press, Inc., 1942. Pp. xiii, 314. $3.00.

The Women's Trade Union Leagues in Great Britain and the United States. By Gladys Boone. New York: Columbia University Press, 1942. Pp. 283. $3.50.